

Arizona Department of Economic Security

# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2001



ARIZONA DEPARTMENT OF ECONOMIC SECURITY  
A DEPARTMENT OF THE STATE OF ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended  
June 30, 2001

Prepared by the  
Division of Business and Finance

# ARIZONA DEPARTMENT OF ECONOMIC SECURITY COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended  
June 30, 2001

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**INTRODUCTORY SECTION**

LETTER OF TRANSMITTAL

LIST OF PRINCIPAL OFFICIALS

ORGANIZATIONAL CHART





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**Arizona Department of Economic Security**

1717 West Jefferson – P.O. Box 6123 – Phoenix, AZ 85005

Jane Dee Hull  
Governor

John L. Clayton  
Director

December 14, 2001

The Honorable Jane Dee Hull  
Governor of the State of Arizona;  
Members of the Arizona Legislature;  
and the Citizens of the State of Arizona:

We are pleased to present the Comprehensive Annual Financial Report for the Arizona Department of Economic Security (Department), a department of the State of Arizona, for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Department. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

This report is presented in three sections: Introductory, Financial and Statistical. The introductory section includes this transmittal letter, a list of the Department's principal officials and the Department's organizational chart. The financial section includes the independent auditors' report, financial statements and notes, and the combining and individual fund financial statements and general fixed assets account group schedules. The statistical section includes selected schedules that present various financial and demographic data on a multi-year comparative basis relative to the Department's operation as a human service agency.

The objective of the Comprehensive Annual Financial Report is to provide data relative to the financial position of the Department in conformity with generally accepted accounting principles. The report includes all funds and account groups of the State of Arizona for which the Department is financially accountable.

The Department has six district offices and more than 270 locations statewide. District offices are located in Phoenix, Tucson, Flagstaff, Yuma, Casa Grande and Bisbee. Approximately 9,600 people are employed by the Department, which was established by the State Legislature in July 1972 by combining the Employment Security Commission, the State Department of Public Welfare, the Division of Vocational Rehabilitation, the State Office of Economic Opportunity, the Apprenticeship Council and the State Office of Manpower Planning. The State Department of Mental Retardation joined the Department in 1974. The purpose in creating the Department was to provide an integration of direct services to people in such a way as to reduce duplication of administrative efforts, services and expenditures.

## Organization and Services Provided

The Department is organized into divisions that provide protective, social and community services; employment and economic assistance; and operations support, as follows:

- The Division of Aging and Community Services (DACS) provides and contracts for services, such as emergency assistance, food distribution information for the hungry, rural food banks, shelter and supportive services to victims of domestic violence, refugee resettlement services and shelter for the homeless. Adult services programs include adult protective services, the supplemental payments program, home care, congregate and home-delivered meals, case management, long-term care ombudsman program, State Health Insurance Assistance Program, legal assistance, Senior Community Service Employment Program (Title V), the Foster Grandparent Program and the Family Caregiver Support Program.
- The Division of Children, Youth and Families (DCYF) provides child protective services, foster care services, adoption services, in-home family services and intensive family services for families whose children are at imminent risk of out-of-home placement. In addition, comprehensive medical and dental coverage is provided for foster children under the jurisdiction of the Department, juvenile probation offices and the Department of Juvenile Corrections.
- The Division of Child Support Enforcement (DCSE) administers Arizona's child support enforcement program. The services of the Division include locating absent parents; establishing legal obligations and the amounts of child support payments; payment collections; and investigating and modifying child support payments.
- The Division of Developmental Disabilities (DDD) provides services to individuals with developmental disabilities through a 100 percent state-funded program and the Arizona Long-Term Care System (ALTCS), which is funded by the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) through the Arizona Health Care Cost Containment System (AHCCCS). Both programs provide foster care, as well as residential, adult day care and children's services. In addition, the ALTCS program provides acute medical care to eligible individuals.
- The Division of Employee Services and Support (DESS) provides support services to all employees and programs, including appellate services; audit and management services; special investigations; internal security; research; organization and management development; volunteer services and personnel.
- The Division of Benefits and Medical Eligibility (DBME) administers the Temporary Assistance for Needy Families (TANF) cash benefits program, Food Stamps and state-funded General Assistance programs. In addition, the Division determines eligibility for the State's medical assistance program

(AHCCCS), as well as supplemental security income through its Disability Determination Services Administration.

- The Division of Employment and Rehabilitation Services (DERS) administers Arizona's Unemployment Insurance and Job Service programs. In addition, the Division provides job training opportunities through administration of the Workforce Investment Act (WIA), Jobs programs and Vocational Rehabilitation programs. The Division also administers a comprehensive set of child care programs.
- The Division of Policy and Program Development (DPPD) provides support to all employees and programs in support of the Department's mission. These services include development and coordination of department policy, planning and projects; best practices; and strategic planning and evaluation. The Division focuses on identifying best practices and innovative approaches in human services; strategic planning; analyzing and developing new policies and rules; coordinating cross-divisional projects; evaluating programs; and demonstrating leadership.
- The Division of Business and Finance (DBF) provides office and general business services to the Department, such as accounting, finance, budget, collections, procurement, facilities management, printing, and mail management.
- The Division of Technology Services (DTS) provides automation and telecommunication support to the Department, including system design and programming, database management and technical support.

#### Economic Conditions and Outlook

The following economic information has been obtained from the Department's Research Administration's "Forecast Update 2001-02" press release dated August 2001 and the follow-up "Post-Attack Forecast Update" dated October 25, 2001.

Prior to the events of September 11<sup>th</sup>, Arizona's economy was succumbing to the employment contraction afflicting the national economy. High-tech and durable manufacturing industries were most affected by this downslide, a process that began roughly one year earlier at the national level as capital investment shifted due to slackening demand. Manufacturing and high-tech service employers subsequently reigned in costs and excess capacity by reducing production, closing plants and furloughing or laying off employees. Arizona's economy began to show employment-related adjustments and losses around the second quarter of 2001.

Recent news headlines and data have increasingly confirmed that the national (and even global) economy is clearly slowing down. Gross domestic product figures released earlier this year—the weakest in eight years—confirmed a much slower economy than one year earlier. Nevertheless, up until the September 11<sup>th</sup> terrorist attacks, consumer spending had remained surprisingly strong. The September 11<sup>th</sup> events vastly altered the economic landscape of our nation and effectively levied a "shock" to the economy.

An evaluation of Arizona's economic outlook subsequent to the September 11<sup>th</sup> events projects nonfarm payroll jobs will grow by 1.6 percent in 2001, with a modest improvement to 2.8 percent in 2002. In terms of the number of jobs added, the post-attack forecast is for Arizona's economy to add more than 35,000 jobs in 2001 and more than 63,000 in 2002.

Arizona's manufacturing industry continues to grapple with investment shifts and slackened demand. Cost containment pressures have resulted in many highly publicized layoff announcements, while at the same time, growth is occurring in other areas. Forecasts call for the manufacturing industry to reduce its workforce by about three-tenths of one percentage point in 2001 with a slight loss in factory jobs. Growth of 1.3 percent is expected in 2002.

Still a shining star industry in Arizona, construction continues to look relatively strong through the forecast horizon. The post-attack forecast expects construction to grow at a pace of 2.1 percent in 2001 and 1.6 percent in 2002, adding 3,400 jobs in 2001 and 2,600 in 2002. Stimulating this growth over the forecast period are the continuing enticing mortgage financing rates and attractive home prices.

Service jobs in Arizona are forecast to grow at a rate of 1.3 percent in 2001 and 3.1 percent in 2002. Health, educational and automotive services are expected to continue showing relatively strong upward trends. Business travel was largely off in 2001, mostly due to the cyclical economic downside in manufacturing and high-tech service jobs. This placed downward pressure on jobs in the hotels, lodging and other related industries.

Trade jobs are forecast to grow by 1.7 percent in 2001 and 3.1 percent in 2002. While most trade sectors are projected to reduce growth through the forecast period, Arizona's economy is expected to add 25,900 trade jobs over the 2001-02 forecast period. In general, the post-attack forecast expects Arizona's consumers to take advantage of retailers offering sharp discounts.

The post-attack forecast update expects the transportation, communications and public utilities (TCPU) group to grow by eight-tenths of one percentage point in 2001 and by 3 percent in 2002. Overall, the TCPU industry is forecast to add more than 4,200 jobs in the 2001-02 period. The transportation sector experienced softening demand in 2001, especially in business travel. Companies, focused on reigning in costs, sharply reduced their travel in 2001. As a result, the downward pressure on jobs in this industry was significantly greater than in 2000.

The finance, insurance, and real estate industry is forecast to grow by nearly 2 percent in 2001 and 2.5 percent in 2002, adding more than 6,000 new jobs over the forecast horizon. While banks and investment firms are grappling with the downside pressures of a slowing economy, generally, some of these pressures are offset by re-financing and continued, moderately healthy purchasing activities. Insurance companies may be the real question in 2001 and 2002, depending on their level of exposure to the devastation in New York and other possible risk-related adjustments to future acts or threats of terrorism.

Mining and government job growth offers vastly different news throughout the two-year forecast period. Each will continue its earlier trend, with government (driven mostly by education) showing modest 3 percent growth while mining continues its modest employment contraction with workforce reductions of 4.1 percent in 2001 and about 3.2 percent in 2002.

### Major Initiatives

During fiscal year 2001, the Department continued, commenced and planned a number of projects aimed at streamlining processes and improving customer service. The most significant projects are outlined below.

- Proposition 204

In November 2000, Arizona voters passed Proposition 204, which provided for expanded medical assistance benefits to Arizonans. AHCCCS requested and obtained a Title XIX waiver from the U.S. Department of Health and Human Services to add two new Medicaid categories. In May 2001, the Arizona Legislature passed, and the Governor signed, the Senator Andy Nichols Comprehensive Health Insurance Act, Senate Bill (SB) 1577, which repealed the former Medically Indigent/Medically Needy county-administered medical assistance program and provided for the transfer of responsibility for eligibility determination for the new Medicaid categories to the Department. As a result of these changes, an additional 185,000 Arizonans whose income is equal to or less than 100% of the Federal Poverty Level are now potentially eligible for medical assistance.

SB1577 provided for the transfer of county employees affected by this transfer of responsibilities to be offered employment in state service, with no loss of either income or seniority. SB1577 also offered the counties the option to transfer office furnishings and information technology equipment previously used in the medical eligibility determination process, to the Department. The legislation required an effective date of October 1, 2001 for these changes.

To implement the provisions of SB1577, the Department negotiated and executed intergovernmental agreements with each of the fifteen counties in Arizona and planned for the acquisition and integration of more than 650 county employees, most of whom are directly involved in the eligibility process. To accommodate this additional staff and to meet the needs of the expanded customer base, the Department has deployed staff in more than 80 new locations throughout the state. These include 50 hospitals, with the balance in such sites as former county medical assistance eligibility office locations, neighborhood centers, and county health department offices.

- Family Builders

Family Builders began January 1, 1998 as a two-and-a-half-year pilot program in Maricopa and Pima counties. In fiscal year 2000, the program was re-authorized for a period of ten years by the Arizona Legislature through SB 1136. The program was expanded in fiscal year 2000 to include the rural counties of Yavapai, Coconino, Navajo, and Apache in northern Arizona and Graham, Greenlee, Cochise, and Santa Cruz in southeastern Arizona. This program is an alternative response to potential or low-risk child abuse and neglect reports through the provision of family-centered assessments and services versus a Child Protective Services (CPS) investigation. The family-centered, community-based providers and collaborators work as partners with families who choose to participate in the program. These providers and collaborators conduct family assessments, perform case management and provide a variety of services to families, including parenting skills training, counseling, assistance with transportation, emergency shelter, etc. The goal of the program is to enhance parents' ability to create safe, stable and nurturing home environments that promote the safety of all family members and healthy child development. Since the inception of the Family Builders program, the Department has maintained a 100% response rate to reports of alleged abuse or neglect.

- Arizona Re-employment Rapid Access (ARRA)

In December 2000, the Employment Security Administration put into operation its second unemployment insurance call center. Combined with the call center operating in Phoenix, which opened in October 2000, this client-server-based system allows individuals to file for unemployment insurance benefits using a telephone. Toll-free access to the system is available for all intra and interstate claimants. These two centers are considered "virtual" call centers. Each caller is routed to the next available agent, regardless of at which site the agent is located. The interactive voice response (IVR) applications allow information gathered through claimant's responses, using their telephone keypad, to be available on the responding agent's PC when the call is transferred from the IVR. The call centers process all initial, additional, re-opened, military, federal, interstate and combined claims.

Each center also contains an adjudications unit. A third adjudications center was opened in Yuma and is electronically connected to the call center databases. All unemployment insurance claims and adjudications are now processed through one of the three locations.

The Employment Security Administration received a grant from the U.S. Department of Labor to develop and implement an Internet application for the filing of initial claims for unemployment insurance benefits. This service is targeted to be available by fall 2002.

- Healthy Families Arizona Program

The Healthy Families Arizona Program is a community-based, multi-disciplinary program serving families of newborns and is designed to reduce stress, enhance parent-child interaction, promote child health and development, and minimize the

incidence of abuse and neglect within a multi-cultural environment. This voluntary home visitation program provides a Family Support Specialist (FSS) who assists the family in obtaining services and provides emotional support; assistance in developing parenting and coping skills; education on child development; education on the importance of good nutritional habits to improve the overall health of children; education on developmental assessments so that any learning disabilities, physical disabilities or behavioral health needs are determined; education on the importance of preventive health care and the need for screening examinations, such as hearing and vision; assistance and encouragement to provide age-appropriate immunizations so that children are immunized; assistance and encouragement to access comprehensive private and public preschool and other school readiness programs; assistance in applying for private and public financial assistance, including employment services; and assistance in accessing other applicable community and public services. The FSS works closely with the child's pediatrician in monitoring the child's health. Families may be visited by FSS anywhere from weekly to quarterly according to the family's level of need. Program services are available until the child reaches five years of age.

- Substance Abuse Treatment Program

The Substance Abuse Treatment Program is an innovative collaboration between the community, the Department, the Department of Health Services, faith-based organizations and regional behavioral health authorities. This program will provide a continuum of community-based, family-centered services to parents whose substance abuse has been identified as a significant barrier to maintaining or reunifying the family, or to employment stability. Eligible participants include those parents who are reported to Child Protective Services or who are TANF cash recipients. In addition to core substance abuse treatment and recovery services, other essential support services will be provided to assist the entire family in its recovery. Through the key efforts of the legislature and support of the Governor's Office, SB 1280 was passed to appropriate TANF funding for this essential program to begin service delivery March 1, 2001.

- Arizona Works

In 1997, legislation was passed which established a Procurement Board to oversee implementation of a welfare reform pilot project. This project was designed to test the validity and cost effectiveness of privatizing the delivery of specific welfare programs to clients. Included in the original plan was the delivery of eligibility determinations for TANF, General Assistance, Food Stamps, Medicaid and TANF child care and the delivery of TANF and Food Stamp-related employment services. On January 11, 1999, the Department entered into a contract with MAXIMUS, Inc., to operate as the Arizona Works Agency and deliver services limited to TANF, General Assistance, TANF child care eligibility, TANF employment supportive services and the Food Stamps Employment and Training program. The Department provides support to the pilot by providing technical assistance to the Procurement Board and by coordinating service delivery with the Arizona Works Agency.

A rural site was scheduled for implementation on January 1, 2001. Contract negotiations to establish the budget for this site began in October 2000 and continued until July 2001. As a result, implementation has been delayed. In October 2001, the Arizona Works Agency Procurement Board voted to reconsider the location for the second site. Selection is slated for completion by December 31, 2001, with implementation approximately 90 to 120 days later.

- Health Insurance Portability and Accountability Act of 1996 (HIPAA)

In 1996, Congress passed the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA mandates significant changes in the legal and regulatory environment to guarantee the security and privacy of health-related information and to standardize the format of electronic transmissions of health-related data. In collaboration with other state agencies involved with health care, the State is developing recommendations on a State HIPAA Governance Board. The Department also is assessing the impacts of HIPAA on internal business and program operations and has begun an assessment of required system modifications.

- Workforce Investment Act (WIA) Eligible Training Provider List

Since the implementation of WIA in July 2000, the Workforce Development Administration has succeeded in overseeing the certification of approximately 1,000 training programs to the statewide Eligible Training Provider List. Training programs certified to the state list include a comprehensive mix of courses aligned with the occupations in demand in Arizona. The providers of these training programs include community colleges, private post-secondary institutions and community-based organizations. The state list, available via the Internet, assists WIA participants who are issued training vouchers in selecting training that best meets their abilities and interests. The list is also available to the general public and contains the Consumer Report System, which details the performance of each certified training program in terms of student completion rates, employment rates and average wages. The Eligible Training Provider List serves as a prime example of customer choice and universal access under the WIA.

- Relatives as Parents Program (RAPP)

The RAPP is a statewide initiative aimed at serving relative caregivers. RAPP has three primary objectives: 1) to facilitate the development of five new relatives as parents support groups; 2) to expand the statewide RAPP network; and 3) to enhance the participation in the RAPP statewide task force. The RAPP initiative is funded through the Brookdale Foundation Group and is implemented through the Department's Aging and Adult Administration (AAA). AAA has contracted with the Beatitudes Center D.O.A.R. (Developing Older Adult Resources) to issue mini-grants in an effort to encourage and enable the development of local relatives as parents support groups. Two support groups have been initiated under the sponsorship and support of local agencies in different parts of the state.

- National Family Caregiver Support Program

The Older Americans Act Amendments of 2000 established a National Family Caregiver Support Program. Arizona received an allocation of \$1.9 million to implement the Arizona Family Caregiver Support Program. The program calls for all states, working in partnership with area agencies on aging and local community-service providers to have the five basic services for family caregivers, including:

- Information to caregivers about available services;
- Assistance to caregivers in gaining access to supportive services;
- Individual counseling, organization of support groups, and caregiver training to caregivers to assist the caregivers in making decisions and solving problems relating to their caregiving roles;
- Respite care to enable caregivers to be temporarily relieved from their caregiving responsibilities; and
- Supplemental services, on a limited basis, to complement the care provided by caregivers.

Services are to be provided to: 1) family caregivers of older adults and 2) grandparents and other relative caregivers of children not more than 18 years of age. The statute requires states to give priority consideration to: 1) persons in greatest social and economic need (with particular attention to low-income, minority individuals) and 2) older individuals providing care and support to persons with mental retardation and related developmental disabilities.

#### Automation Initiatives

The Department continues to enhance its automation capabilities. Automation can have a positive impact on the way the Department provides services to the public and can enhance the productivity of Department staff. Several major automation initiatives have been completed or are underway in the Department, including the following:

- Accounts Receivable Integrated Collections System (ARICS)

ARICS is the user-friendly system designed by the Office of Accounts Receivable and Collections (OARC) staff to support its business functions. ARICS provides information processing for the tracking and collections of overpayment claims in public assistance programs, as well as other public debts. To facilitate enhanced food stamp collections, the Treasury Offset Program (TOP) was redesigned, automated and integrated to ARICS. The Disqualified Recipient Sub-system (DRS) which transmits the exchange of disqualified Food Stamp recipients information between states was completely redesigned and integrated with ARICS. DRS information is now automatically transmitted and updated to the National Database. SB 1031 allowed for sale of the ARICS system with 50% of the proceeds to be retained and deposited to the Public Assistance Collections (PAC) fund. The remaining 50% will be sent to the State's General Fund. On May 16, 2001, an intergovernmental agreement was prepared and submitted to Hawaii as provided by legislation.

- Division of Developmental Disabilities (DDD) Acute Care and Comprehensive Medical and Dental Program (CMDP) Managed Care Software Projects

To improve the functionality of their acute care software, both DDD and CMDP implemented a fully functional packaged software solution developed by Quality Care Solutions, Inc. of Phoenix Arizona, called QMACS®. QMACS® was originally developed to support the Arizona Health Care Cost Containment System's contracted health plans and is a tested and proven comprehensive managed care software package. QMACS® is designed to enhance business processes that not only enable operating efficiencies but also conform to industry standards. QMACS® was installed for CMDP in January 2001 and for DDD in October 2001.

- Infrastructure Expansion Project

The Department has initiated an Information Technology (IT) Infrastructure Upgrade plan as a multi-year effort to address telecommunications issues and areas of information technology in which opportunities have been identified for more efficient and/or effective operations. The three major areas to be addressed are identified as follows:

- Network Infrastructure
- Network Management Capability
- Local Office Workstations

The IT Infrastructure Expansion Project will establish a modern Wide Area Network infrastructure to provide the capability to meet current and future needs; conform to state IT standards and direction; and reduce the total cost of ownership of IT resources across all Department programs.

#### Financial Information

The Department is responsible for developing and maintaining its internal control systems. Internal controls are designed to provide reasonable, but not absolute, assurance that assets are properly safeguarded from unauthorized use or disposition and that financial records are reliable and properly maintain accountability for assets.

The concept of reasonable assurance requires management to make judgments regarding the costs and benefits of a given control feature. The cost of a control should not exceed the benefits expected to be derived. We believe that the Department's internal controls adequately safeguard assets and provide reasonable assurance that financial transactions are properly recorded.

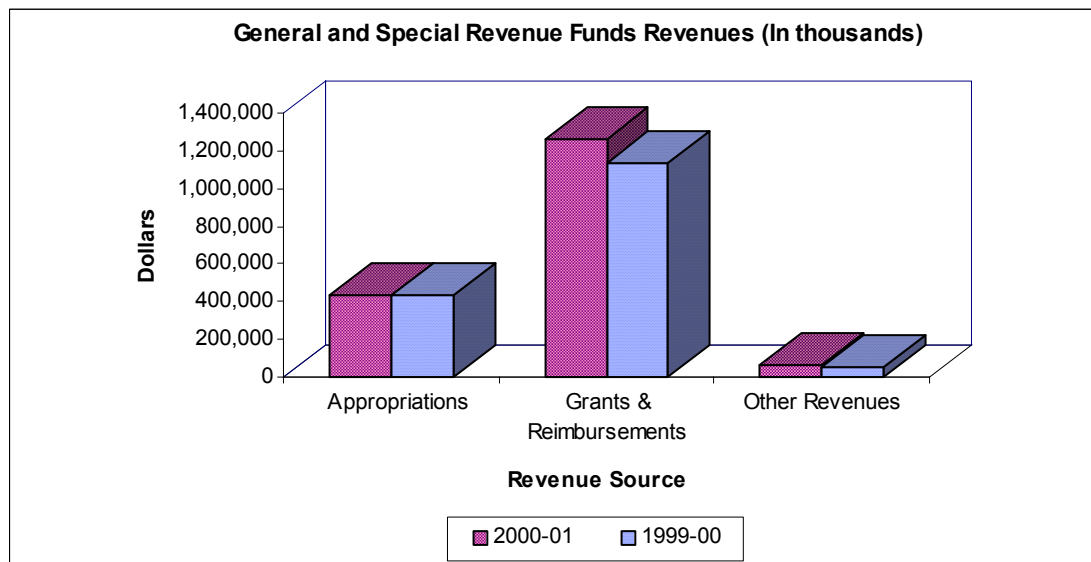
Budgetary control is maintained at the appropriation level. Encumbrance accounting is used to record commitments for expenditures and is a formal extension of budgetary control. Generally, encumbrances lapse at fiscal year-end.

The Department can only legally amend or transfer appropriations in accordance with Arizona Revised Statutes § 35-173.C.-E. The Department Director, or designee, normally requests such a transfer through the Governor's Office of Strategic Planning and Budgeting and the Department of Administration.

Summary information, expressed in thousands, for the General and Special Revenue Funds is outlined below.

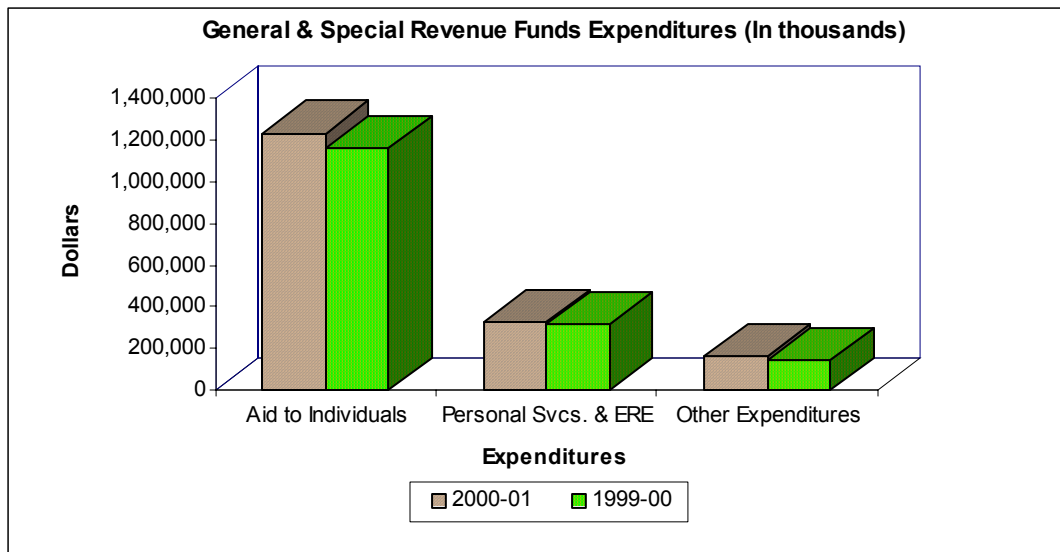
**Comparison of General and Special Revenue Funds Revenues  
For the Years Ended June 30, 2001 and 2000**

Revenue Source	2000-01		1999-00		Change Increase (Decrease)	% Change Between Fiscal Years
	Amount	% of Total	Amount	% of Total		
State General Fund						
Appropriations	\$ 434,835	24.76%	\$ 434,171	26.71%	\$ 664	0.15%
Grants & Reimbursements	1,258,125	71.64%	1,133,199	69.71%	124,926	11.02%
Other Revenues	63,302	3.60%	58,212	3.58%	5,090	8.74%
Total Revenue	<u>\$ 1,756,262</u>	<u>100.00%</u>	<u>\$ 1,625,582</u>	<u>100.00%</u>	<u>\$ 130,680</u>	<u>8.04%</u>



**Comparison of General and Special Revenue Funds Expenditures  
For the Years Ended June 30, 2001 and 2000**

Expenditures	2000-01		1999-00		Change Increase (Decrease)	% Change Between Fiscal Years
	Amount	% of Total	Amount	% of Total		
Aid to Individuals	\$1,233,986	71.55%	\$ 1,161,192	71.74%	\$ 72,794	6.27%
Personal Svcs. & ERE	328,293	19.03%	313,382	19.36%	14,911	4.76%
Other Expenditures	162,406	9.42%	143,942	8.90%	18,464	12.83%
Total Expenditures	<u>\$ 1,724,685</u>	<u>100.00%</u>	<u>\$ 1,618,516</u>	<u>100.00%</u>	<u>\$ 106,169</u>	6.56%



A comparison of unreserved fund balances, expressed in thousands, for the Department's General and Special Revenue Funds follows:

Fund	2000-01	1999-00	Change Increase (Decrease)
General	\$ 63,957	\$ 23,518	\$ 40,439
Special Revenue	14,366	13,072	1,294

The above tables present an overview of the primary operating funds of the Department.

Between fiscal years, aid to individuals expenditures increased by \$73 million, and grants and reimbursements revenues increased by \$125 million. These increases were primarily due to increases in expenditures in health care (AHCCCS) and the TANF program, including jobs and child care programs, of \$29.5 million and \$46 million, respectively. In fiscal year 2001, total ALTCS program Title XIX revenues increased by approximately \$50 million as a result of case load growth and a capitation rate increase. The \$40.4 million increase in the General Fund unreserved

fund balance was primarily attributable to a \$32 million excess of revenues over expenditures in DDD's ALTCS program for the year ended June 30, 2001.

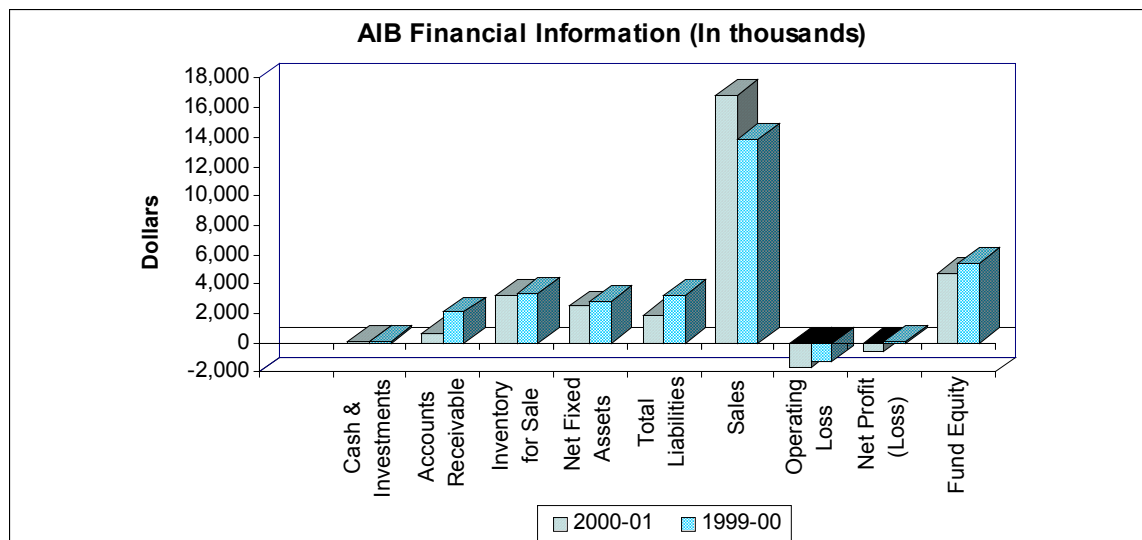
### Enterprise Operations

The Department's Enterprise Fund is used to account for the activities of Arizona Industries for the Blind (AIB). AIB has the statutory authority to provide employment and training opportunities for individuals who are blind through its training centers, workshops and business enterprises. AIB employs these individuals in the manufacturing, packaging, distribution and sales of its products. AIB enterprise activities include Military Base Supply Stores, the Federal Government Product Distribution Center and the Production Services Unit. Approximately 85 percent of items manufactured by AIB are sold to the federal government under the auspices of the Javits-Wagner-O'Day Act.

The following summary, expressed in thousands, presents selected AIB financial information.

**Comparison of AIB Financial Information  
For the Years Ended June 30, 2001 and 2000**

	2000-01	1999-00	Change Increase (Decrease)
Cash & Investments	\$ 92	\$ 71	\$ 21
Accounts Receivable	695	2,091	(1,396)
Inventory for Sale	3,278	3,368	(90)
Net Fixed Assets	2,496	2,775	(279)
Total Liabilities	1,902	3,301	(1,399)
Sales	16,786	13,883	2,903
Operating Loss	(1,656)	(1,203)	453
Net Profit (Loss)	(588)	164	(752)
Fund Equity	4,779	5,366	(587)



The increase in sales in fiscal year 2000-01 was primarily attributable to increases in commercial sales, base supply stores sales, and a new federal contract in the distribution unit for tape and webbing. The dissolution of the Defense Finance and Accounting Service (DFAS) in Denver, Colorado, resulted in transfers of inventory and late billings of invoices. The effect of this change in government contributed to the increase in the operating loss and the decrease in net profit for the year ended June 30, 2001.

#### Fiduciary Operations

The Department maintains three agency funds to account for assets held by the Department on behalf of its clients and children of custodial parents. Total assets, expressed in thousands, held by the Department in an agency capacity were as follows:

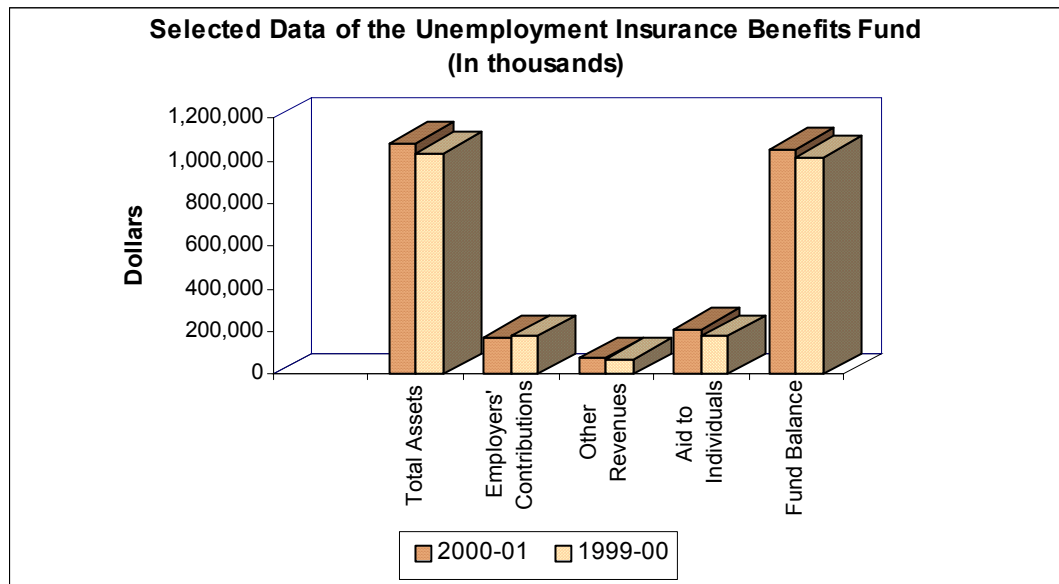
	<u>2000-01</u>	<u>1999-00</u>	<u>Change Increase (Decrease)</u>
Client Trust	\$ 2,145	\$ 2,378	\$ (233)
DD Client Investment	2,885	2,828	57
Child Support Enforcement	16,742	20,982	(4,240)

Although child support collections increased substantially in fiscal year 2001 as a result of increased collection efforts, Child Support Enforcement Fund assets decreased as a result of a change in the Internal Revenue Services' offset processing allowing DCSE to post and distribute funds more expeditiously.

The Department also maintains two expendable trust funds. The Mesa Land Fund accounts for the proceeds, interest earnings and expenditures from the sale of land gifted to the State. Expenditures from the fund benefit individuals with developmental disabilities. The Unemployment Insurance Benefits Fund accounts for employer contributions to the State's unemployment insurance program, as well as expenditures for unemployment benefits to eligible claimants. The table below, expressed in thousands, outlines summary data for the Unemployment Insurance Benefits Fund.

#### **Comparison of Selected Data of the Unemployment Insurance Benefits Fund For the Years Ended June 30, 2001 and 2000**

	<u>2000-01</u>	<u>1999-00</u>	<u>Change Increase (Decrease)</u>	<u>% Change Between Fiscal Years</u>
Total Assets	\$ 1,081,741	\$ 1,036,998	\$ 44,743	4.31%
Employers' Contributions	175,736	177,604	(1,868)	(1.05%)
Other Revenues	76,695	73,995	2,700	3.65%
Aid to Individuals	212,471	180,498	31,973	17.71%
Fund Balance	1,051,658	1,013,758	37,900	3.74%



The Unemployment Insurance Benefits Fund had an increase in total assets and fund balance between years. Although employer contributions decreased by \$1.9 million, total employer contributions and interest on investments included in other revenue combined to exceed benefits payments by approximately \$29 million. Employer contributions are formula-driven and are necessary to maintain a given level of fund adequacy to pay future benefits.

#### Cash Management

Most of the General, Special Revenue and Enterprise Funds' cash is on deposit with the State Treasurer. Some of this cash is pooled and invested, and interest earned is generally deposited in the State General Fund. Certain monies are separately pooled and invested, and the interest earnings are credited to the appropriate fund.

Most of the cash in the Expendable Trust Funds is held by the U.S. Treasury in an unemployment insurance trust account. These monies are pooled and invested by the U.S. Treasury. Interest earnings are credited to the trust account.

#### Risk Management

The State of Arizona is self-insured through the Risk Management Division of the Arizona Department of Administration. The Risk Management Division maintains the Risk Management Fund which is accounted for as an internal service fund in the State of Arizona financial statements. During the fiscal year ended June 30, 2001, the Department contributed \$3,764,700 to the Risk Management Fund.

#### Audit and Management Services

The Department's Office of Audit and Management Services (AMS) operates within the Division of Employee Services and Support. AMS staff perform evaluations of internal controls, program compliance and performance. In addition, AMS staff

perform compliance and financial reviews of the Department's providers and review single audits submitted by the Department's subrecipients.

### Independent Audit

The Department receives an annual financial statement audit by the Office of the Auditor General. The independent auditors' report is included in this report. The audit is conducted in accordance with U.S. generally accepted auditing standards and includes such tests and other auditing procedures as considered necessary in the circumstances. The results of the Department's audit are included in the State of Arizona Comprehensive Annual Financial Report.

The Department also is audited by the Office of the Auditor General in conjunction with the single audit of the State of Arizona. These audit tests are conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The results of this audit are included in the State of Arizona Single Audit Reporting Package.

In the fiscal year ending June 30, 2002, the State of Arizona will implement Statement No. 34 of the Governmental Accounting Standards Board, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. This statement establishes new financial reporting requirements for state and local governments throughout the United States. When it is implemented, it will create new information and will restructure much of the information that governments have presented in the past. With the implementation of the new reporting model, the Department will no longer continue to issue separately audited financial statements.

### Awards

- The Arizona Family Builders Program was selected as a semifinalist in the 2001 Innovations in American Government Awards Program. Fewer than eight percent (only 100 programs from the initial pool of 1,263 applications) advanced to the semifinalist selection round. The Innovations in American Government Program recognizes creative governmental initiatives that are especially effective in addressing vital public concerns.
- Arizona has received its second IV-E Adoption Bonus award from the federal government. As part of the Adoption and Safe Families Act, the Department was required to establish a baseline goal for adoptions for the coming fiscal years. These goals are used to evaluate whether the Department is eligible for the Adoption Incentive Awards. The Department received \$1,326,000 in fiscal year 2001 and \$221,724 in fiscal year 2002.

### Acknowledgments

We wish to express our sincere appreciation to the many dedicated individuals who made this report possible. A special thank you is extended to the staff of the Division of Business and Finance whose commitment and professionalism contributed to the preparation of the Fiscal Year 2001 Comprehensive Annual Financial Report.

Sincerely,

John L. Clayton

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**LIST OF PRINCIPAL OFFICIALS**  
**June 30, 2001**

John L. Clayton  
Director

Bruce Liggett  
Deputy Director

Michael Koppelman  
Associate Director

Nancy Mendoza  
Deputy Director

Karl Matzinger  
Assistant Director  
Division of Business  
and Finance

Vacant  
Assistant Director  
Division of Policy and  
Program Development

Eric S. Zaharia  
Assistant Director  
Division of  
Developmental  
Disabilities

Mary Lou Hanley  
Assistant Director  
Division of Aging and  
Community Services

Bob Buse  
Acting Assistant Director  
Division of Technology  
Services

Vince Wood  
Assistant Director  
Division of Benefits  
and Medical Eligibility

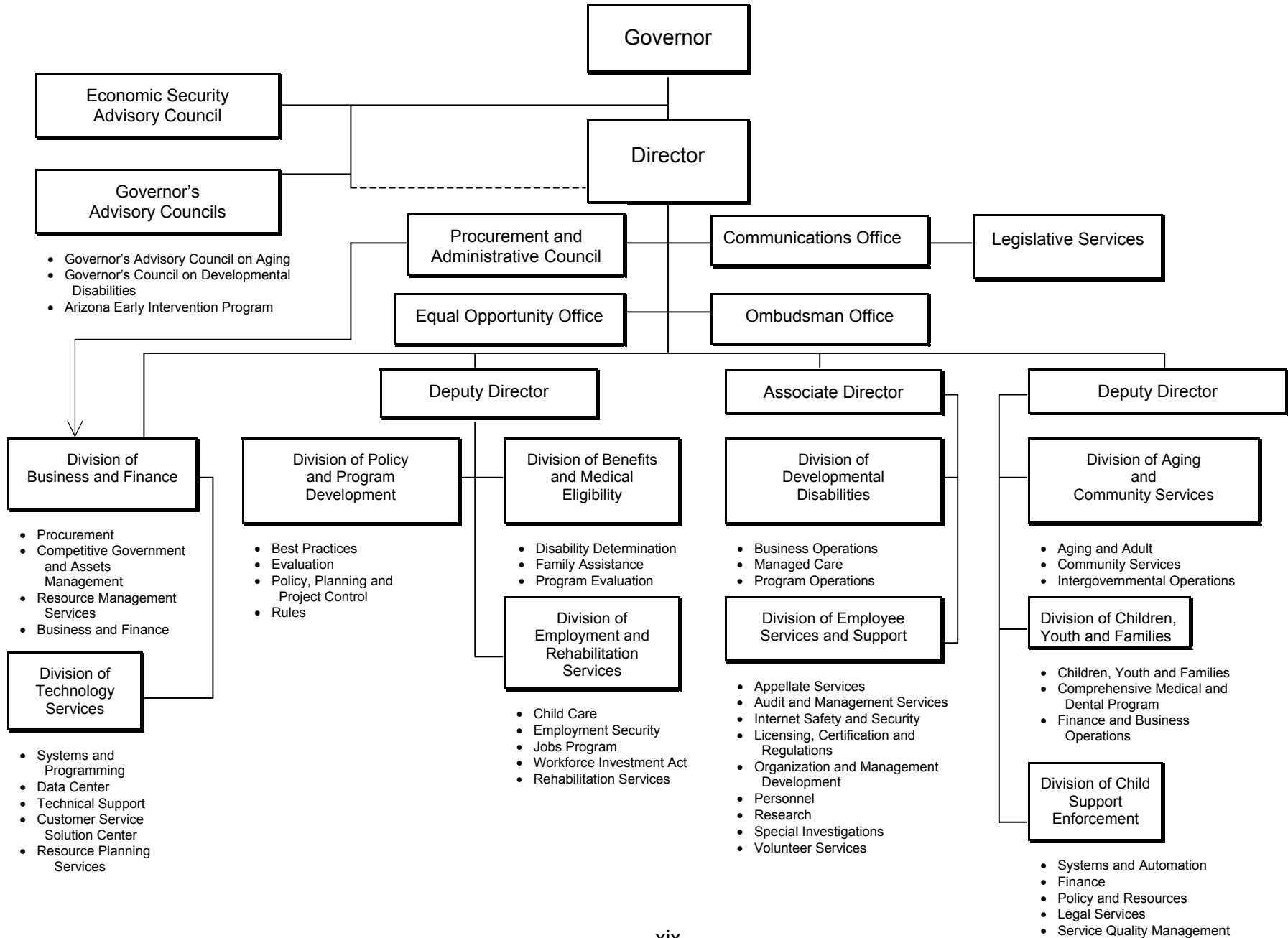
Van Braswell  
Assistant Director  
Division of Employee  
Services and Support

Anna Arnold  
Assistant Director  
Division of Children,  
Youth and Families

Thomas Colombo  
Acting Assistant Director  
Division of Employment and  
Rehabilitation Services

Benidia A. Rice  
Assistant Director  
Division of Child  
Support Enforcement

# ARIZONA DEPARTMENT OF ECONOMIC SECURITY ORGANIZATIONAL CHART





**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

**A DEPARTMENT OF THE STATE OF ARIZONA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**FINANCIAL SECTION**

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

COMBINING INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND GENERAL FIXED ASSETS  
ACCOUNT GROUP SCHEDULES





DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

John L. Clayton, Director  
Department of Economic Security

We have audited the accompanying financial statements of the State of Arizona, Department of Economic Security as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Department of Economic Security's financial statements are intended to present the financial position and results of operations and cash flows of its proprietary fund type and only those portions of the funds and account groups of the State of Arizona that are attributable to the Department's transactions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Economic Security as of June 30, 2001, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements of the Department of Economic Security taken as a whole. The combining and individual fund financial statements and general fixed assets account group schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

Debbie Davenport  
Auditor General

December 14, 2001



## FINANCIAL STATEMENTS

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**June 30, 2001**

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>
<b>Assets and Other Debits</b>							
<b>Assets</b>							
Cash in bank	\$ 268,439		\$ 57,208	\$ 17,580,651			\$ 17,906,298
Cash and investments held by the State Treasurer	132,218,200	\$ 12,772,892	35,071	9,179,382			154,205,545
Deposits held by the U.S. Treasury				1,038,116,687			1,038,116,687
Receivables (net of allowances for uncollectibles):							
Accounts	19,472,959	2,288,944	694,922	4,392,693			26,849,518
Interest	228,826	18,388		20,980			268,194
Employers' unemployment insurance contributions				39,167,970			39,167,970
Due from other funds	1,598,842	998,661					2,597,503
Due from U.S. Government	45,811,057		119,086				45,930,143
Due from other governments	6,397,674						6,397,674
Due from other state agencies	631,390	1,260,591					1,891,981
Inventory of food stamps	281,146						281,146
Inventory for sale			3,278,181				3,278,181
Inventory of supplies, at cost	1,371,193						1,371,193
Fixed assets:							
Land			182,041		\$ 4,565,987		4,748,028
Buildings			1,102,524		35,346,641		36,449,165
Accumulated depreciation			(620,367)				(620,367)
Improvements			1,893,749		4,205,885		6,099,634
Accumulated depreciation			(749,205)				(749,205)
Machinery and equipment			3,428,379		61,015,490		64,443,869
Accumulated depreciation			(2,740,999)				(2,740,999)
<b>Other debits</b>							
Amount to be provided for retirement of general long-term debt						\$ 21,645,090	21,645,090
<b>Total assets and other debits</b>	<b>\$ 208,279,726</b>	<b>\$ 17,339,476</b>	<b>\$ 6,680,590</b>	<b>\$ 1,108,458,363</b>	<b>\$ 105,134,003</b>	<b>\$ 21,645,090</b>	<b>\$ 1,467,537,248</b>

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total
	General	Special Revenue	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memorandum Only)
<b>Liabilities, Equity and Other Credits</b>							
<b>Liabilities</b>							
Accounts payable	\$ 104,761,187	\$ 584,954	\$ 1,732,260				\$ 107,078,401
Unemployment benefits payable				\$ 7,918,933			7,918,933
Accrued liabilities				6,572,409			6,572,409
Compensated absences	2,590,663		169,727			\$ 14,002,666	16,763,056
Due to other funds	730,771	99,698		1,767,034			2,597,503
Due to U.S. Government	2,083,240						2,083,240
Due to other state agencies	12,323,124						12,323,124
Deposits held for others	118,438			20,175,530			20,293,968
Installment purchase contracts						7,642,424	7,642,424
Deferred revenue	20,343,680	2,288,944		15,422,018			38,054,642
<b>Total liabilities</b>	<b>142,951,103</b>	<b>2,973,596</b>	<b>1,901,987</b>	<b>51,855,924</b>		<b>21,645,090</b>	<b>221,327,700</b>
<b>Equity and other credits</b>							
Contributed capital			926,622				926,622
Investment in general fixed assets					\$ 105,134,003		105,134,003
Retained earnings			3,851,981				3,851,981
Fund balances:							
Reserved for:							
Inventory	1,371,193						1,371,193
Unemployment insurance benefits				1,051,657,824			1,051,657,824
Other				4,944,615			4,944,615
Unreserved	63,957,430	14,365,880					78,323,310
<b>Total equity and other credits</b>	<b>65,328,623</b>	<b>14,365,880</b>	<b>4,778,603</b>	<b>1,056,602,439</b>	<b>105,134,003</b>		<b>1,246,209,548</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 208,279,726</b>	<b>\$ 17,339,476</b>	<b>\$ 6,680,590</b>	<b>\$ 1,108,458,363</b>	<b>\$ 105,134,003</b>	<b>\$ 21,645,090</b>	<b>\$ 1,467,537,248</b>

See Notes to Financial Statements.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balances -**  
**All Governmental Fund Types and Expendable Trust Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Governmental Fund Types</b>		<b>Fiduciary Fund Type</b>	<b>Total</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Expendable Trust</b>	<b>(Memorandum Only)</b>
<b>Revenues</b>				
State general fund appropriations	\$ 434,834,859			\$ 434,834,859
Grants and reimbursements	1,258,124,979		\$ 9,116,420	1,267,241,399
Employers' unemployment insurance contributions			175,736,341	175,736,341
Interest on investments	3,161,580	\$ 287,516	66,160,736	69,609,832
Interest and penalties			1,690,075	1,690,075
Fines, forfeits and penalties		2,248,802		2,248,802
Other	53,351,732	4,252,346	36,363	57,640,441
<b>Total revenues</b>	<b>1,749,473,150</b>	<b>6,788,664</b>	<b>252,739,935</b>	<b>2,009,001,749</b>
<b>Expenditures - Current</b>				
<b>Health and Welfare:</b>				
Aid to individuals	1,229,038,785	4,947,306	212,471,298	1,446,457,389
Personal services	266,446,577	238,921		266,685,498
Employee-related expenditures	61,562,900	45,107		61,608,007
Professional and outside services	39,297,725	47,629		39,345,354
Travel	8,345,154	5,208		8,350,362
Food	725,816			725,816
Capital outlay	17,539,055	200		17,539,255
Other operating	96,406,197	38,676		96,444,873
<b>Total expenditures</b>	<b>1,719,362,209</b>	<b>5,323,047</b>	<b>212,471,298</b>	<b>1,937,156,554</b>
Excess of revenues over expenditures	30,110,941	1,465,617	40,268,637	71,845,195
<b>Other financing sources (uses)</b>				
Operating transfers in	2,777,658	2,605,875		5,383,533
Operating transfers out		(2,777,179)	(2,606,354)	(5,383,533)
Installment purchase agreements	7,550,652			7,550,652
<b>Total other financing sources (uses)</b>	<b>10,328,310</b>	<b>(171,304)</b>	<b>(2,606,354)</b>	<b>7,550,652</b>
Excess of revenues and other sources over expenditures and other uses	40,439,251	1,294,313	37,662,283	79,395,847
<b>Fund balances, July 1, 2000</b>	<b>24,969,298</b>	<b>13,071,567</b>	<b>1,018,940,156</b>	<b>1,056,981,021</b>
Change in reserve for inventory	(79,926)			(79,926)
<b>Fund balances, June 30, 2001</b>	<b>\$ 65,328,623</b>	<b>\$ 14,365,880</b>	<b>\$ 1,056,602,439</b>	<b>\$ 1,136,296,942</b>

See Notes to Financial Statements.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Expenditures - Budget and Actual (Budget Basis) -**  
**General Fund and Other Appropriated Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Budget</b>	<b>Non-GAAP Actual</b>	<b>Variance</b>
<b>Expenditures - Current</b>			
<b>Health and Welfare:</b>			
<b>Administration</b>			
Operations	\$ 40,031,700	\$ 40,031,700	\$ 0
Lease-purchase equipment	2,532,900	2,532,900	0
Finger imaging	684,400	684,400	0
High performance bonus	3,407,700	3,407,700	0
Public assistance collections	373,400	373,400	0
Attorney General legal services	745,200	745,200	0
Subtotal for special line items	7,743,600	7,743,600	0
Total Administration	47,775,300	47,775,300	0
<b>Developmental Disabilities</b>			
Operations	4,528,800	4,528,800	0
Case management	3,908,700	3,908,700	0
Home and community based services	22,135,900	22,135,900	0
Institutional services	194,900	194,900	0
State funded long-term care services	17,409,400	17,409,400	0
Arizona training program at Coolidge	5,174,700	5,174,700	0
Subtotal for special line items	48,823,600	48,823,600	0
Total Developmental Disabilities	53,352,400	53,352,400	0
<b>Long-Term Care</b>			
Operations	16,646,900	16,646,900	0
Case management	16,138,600	16,138,600	0
Home and community based services	248,340,700	239,240,700	9,100,000
Institutional services	12,679,800	12,679,800	0
Medical services	52,301,800	52,301,800	0
Arizona training program at Coolidge	10,920,500	10,920,500	0
Subtotal for special line items	340,381,400	331,281,400	9,100,000
Total Long-Term Care	357,028,300	347,928,300	9,100,000

See Notes to Financial Statements.

(Continued)

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Expenditures - Budget and Actual (Budget Basis) -**  
**General Fund and Other Appropriated Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Budget</b>	<b>Non-GAAP Actual</b>	<b>Variance</b>
<b>Benefits and Medical Eligibility</b>			
Operations	\$ 36,815,600	\$ 36,815,600	\$ 0
TANF cash benefits	121,077,900	111,309,300	9,768,600
General assistance	4,632,700	4,632,700	0
FLSA supplement	950,200	950,200	0
Tribal welfare reform	1,000,000	1,000,000	0
Arizona Works non-TANF administrative performance incentives	1,221,500	1,221,500	0
Outreach and naturalization	250,000	250,000	0
Arizona Works agency procurement board	300,000	300,000	0
Tuberculosis control	20,600	20,600	0
Food stamp outreach and education	200,000	200,000	0
Institutional support payments	211,100	211,100	0
Subtotal for special line items	129,864,000	120,095,400	9,768,600
Total Benefits and Medical Eligibility	166,679,600	156,911,000	9,768,600
<b>Child Support Enforcement</b>			
Operations	30,604,800	30,604,800	0
Genetic testing	614,700	353,900	260,800
Central payment processing	2,826,900	2,826,900	0
County participation	12,549,500	10,649,500	1,900,000
Attorney General legal services	5,030,100	5,030,100	0
Subtotal for special line items	21,021,200	18,860,400	2,160,800
Total Child Support Enforcement	51,626,000	49,465,200	2,160,800

See Notes to Financial Statements.

(Continued)

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Expenditures - Budget and Actual (Budget Basis) -**  
**General Fund and Other Appropriated Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Budget</b>	<b>Non-GAAP Actual</b>	<b>Variance</b>
<b>Aging and Community Services</b>			
Operations	\$ 5,202,800	\$ 5,202,800	\$ 0
Community and emergency services	6,204,100	6,204,100	0
Coordinated homeless program	2,804,900	2,804,900	0
Coordinated hunger program	1,286,600	1,286,600	0
Adult services	9,711,800	9,711,800	0
LTC ombudsman	359,500	359,500	0
Domestic violence shelter programs	2,800,000	2,800,000	0
Domestic violence legal and advocacy	1,000,000	1,000,000	0
Domestic violence prevention	5,054,600	5,054,600	0
Community-based marriage communication	1,150,000	1,150,000	0
Hopi senior center	50,000	50,000	0
Navajo senior center	50,000	50,000	0
Subtotal for special line items	30,471,500	30,471,500	0
Total Aging and Community Services	35,674,300	35,674,300	0
<b>Children, Youth and Families</b>			
Operations	38,827,800	38,827,800	0
Adoption services	19,407,200	19,407,200	0
Children services	44,477,000	44,227,000	250,000
High risk infant services	386,300	386,300	0
Intensive family services	2,435,600	2,435,600	0
Child severance project	146,500	146,500	0
Comprehensive medical and dental program	2,979,900	2,979,900	0
Child abuse prevention	811,400	811,400	0
CPS incentive pay program	240,000	240,000	0
Family builders pilot program	7,999,000	7,999,000	0
CPS appeals	394,000	394,000	0
Healthy families	5,000,000	5,000,000	0
Permanent guardianship	983,300	983,300	0
CPS expedited substance abuse treatment	224,500	224,500	0
Expedited adoption	300,000	300,000	0
Homeless youth intervention	400,000	400,000	0
Substance abuse services	10,000,000	10,000,000	0
Attorney General legal services	4,357,400	4,357,400	0
TANF deposit to SSBG	23,600,000	23,600,000	0
Subtotal for special line items	124,142,100	123,892,100	250,000
Total Children, Youth and Families	162,969,900	162,719,900	250,000

See Notes to Financial Statements.

(Continued)

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Expenditures - Budget and Actual (Budget Basis) -**  
**General Fund and Other Appropriated Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Budget</b>	<b>Non-GAAP Actual</b>	<b>Variance</b>
<b>Employment and Rehabilitation Services</b>			
Operations	\$ 20,154,900	\$ 20,154,900	\$ 0
JOB\$	29,289,300	29,289,100	200
Job search stipends	13,900	13,900	0
Day care subsidy	102,551,000	100,551,000	2,000,000
Transitional child care	25,134,700	25,134,700	0
Vocational rehabilitation services	3,474,800	3,474,800	0
Developmental disabilities employment support	9,433,300	9,433,300	0
Independent living rehabilitation services	2,033,500	2,033,500	0
Work-related transportation	3,302,200	3,302,200	0
Workforce investment act	47,875,000	23,875,000	24,000,000
Rural technical business assistance	200,000	200,000	0
Tax credit promotion	400,000	400,000	0
Wheels to work program	2,000,000	2,000,000	0
Employment retention and job skills	300,000	300,000	0
Young father mentoring	500,000	500,000	0
Project intervention	1,000,000	1,000,000	0
Summer youth program	1,000,000	1,000,000	0
Summer youth employment and training	1,000,000	1,000,000	0
TANF employment transition program	7,200,000	7,200,000	0
Post employment training	138,900	138,900	0
Parenting skills classes	250,000	250,000	0
Domestic violence post-shelter training	10,000	10,000	0
Enhanced quality reimbursement	500,000	500,000	0
Subtotal for special line items	237,606,600	211,606,400	26,000,200
Total Employment and Rehabilitation Services	257,761,500	231,761,300	26,000,200
<b>Total General Fund and Other Appropriated Funds</b>	<b>\$ 1,132,867,300</b>	<b>\$ 1,085,587,700</b>	<b>\$ 47,279,600 (1)</b>

(1) The variance consists primarily of:

- a) \$9,100,000 of unexpended budget authority in the Department's Long-Term Care System program.
- b) \$35,768,600 of unexpended budget authority in federally funded programs for which the Department did not draw in the federal funds. The federal funds remain available to the Department for expenditure in future years, subject to appropriation.

See Notes to Financial Statements.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Revenues, Expenses and Changes in**  
**Fund Equity - Proprietary Fund Type -**  
**Enterprise Fund**  
**Fiscal Year Ended June 30, 2001**

**Operating revenues**

Sales	\$ 16,786,043
Other	253
	<hr/>
Total operating revenues	16,786,296
	<hr/>

**Operating expenses**

Cost of goods sold	12,874,657
General and administrative	565,253
Rehabilitation and production unit	1,463,892
Lighting warehouse	1,031,357
Davis-Monthan Air Force Base	520,310
Luke Air Force Base	493,054
Yuma Marine Corps Air Station	227,441
Depreciation	536,322
Other	729,984
	<hr/>
Total operating expenses	18,442,270
	<hr/>
Operating loss	(1,655,974)
	<hr/>

**Nonoperating revenues (expenses)**

Grants and administrative matching funds	1,072,605
Interest expense	(4,198)
	<hr/>
Net nonoperating revenues	1,068,407
	<hr/>

Net loss (587,567)

**Fund equity, July 1, 2000** 

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 5,366,170

**Fund equity, June 30, 2001** 

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 \$ 4,778,603 

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See Notes to Financial Statements.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statement of Cash Flows - Proprietary Fund Type -**  
**Enterprise Fund**  
**Fiscal Year Ended June 30, 2001**

**Cash flows from operating activities**

Operating loss	\$	(1,655,974)	
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation		536,322	
Changes in assets and liabilities:			
Decrease in accounts receivable		1,396,366	
Decrease in due from other funds		326,485	
Increase in due from U.S. Government		(103,602)	
Decrease in inventory for sale		89,520	
Decrease in inventory of supplies		19,672	
Decrease in accounts payable		(983,189)	
Decrease in notes payable		(82,613)	
Increase in compensated absences		18,884	
Decrease in due to other funds		<u>(352,088)</u>	
Net cash used for operating activities	\$		(790,217)

**Cash flows from noncapital financing activities**

Grants and administrative matching funds received	<u>1,072,605</u>	
Net cash provided by noncapital financing activities		1,072,605

**Cash flows from capital and related financing activities**

Acquisition of capital assets	(257,183)	
Interest paid on notes payable	<u>(4,198)</u>	
Net cash used for capital and related financing activities		<u>(261,381)</u>
Net decrease in cash and cash equivalents		21,007

**Cash and cash equivalents, July 1, 2000**

71,272

**Cash and cash equivalents, June 30, 2001**

\$ 92,279

See Notes to Financial Statements.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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The accounting policies of the Arizona Department of Economic Security (Department) conform to generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB). A summary of the Department's more significant accounting policies follows.

**A. Reporting Entity**

The Department is an agency of the State of Arizona. The Director of the Department is appointed by the Governor with the advice and consent of the Arizona Senate.

For financial reporting purposes, the financial statements of the Department include an Enterprise Fund and those portions of the General Fund, Special Revenue Funds, Expendable Trust Funds, Agency Funds, General Fixed Assets Account Group and General Long-Term Debt Account Group of the State of Arizona for which the Department is financially accountable. Ultimate fiscal responsibility of the Department remains with the State of Arizona. All financial activity of the Department is recorded in the State's general purpose financial statements in the respective funds and account groups.

**B. Fund Accounting**

The Department's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Department's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures or expenses. Account groups are reporting devices to account for certain assets or liabilities of the governmental funds not recorded directly in those funds.

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the Department's fund categories, types and account groups follows.

- 1. Governmental Funds** account for the Department's general government activities using the flow of current financial resources measurement focus and include the following fund types.

The *General Fund* is the Department's primary operating fund. It accounts for all financial resources of the Department, except those required to be accounted for in other funds.

The *Special Revenue Funds* account for specific revenue sources, other than expendable trusts, that are legally restricted to expenditures for specified purposes.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

2. **Proprietary Funds** account for the Department's ongoing activities that are similar to those found in the private sector using the flow of economic resources measurement focus. The Department applies only those applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The Department's proprietary fund includes the following fund type.

The *Enterprise Fund* accounts for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Department is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

3. **Fiduciary Funds** account for assets held by the Department on behalf of others and include the following fund types.

The *Expendable Trust Funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus. Expendable trust funds account for assets where both the principal and interest may be spent.

The *Agency Funds* are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity.

4. **Account Groups** are used to establish control and accountability for certain Department assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all fixed assets of the Department, except those accounted for in the Enterprise Fund.

The *General Long-Term Debt Account Group* accounts for all long-term obligations of the Department, except those accounted for in the Enterprise Fund.

**C. Basis of Accounting**

The financial statements of the Governmental, Expendable Trust, and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due.

Revenues susceptible to accrual prior to receipt are State General Fund appropriations, grants and reimbursements, employers' unemployment insurance contributions and interest on investments. Interest and penalties; fines, forfeits and penalties; and other revenues are generally not susceptible to accrual because they are not measurable until received in cash.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

The financial statements of the Proprietary Fund are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**D. Budgeting and Budgetary Control**

In accordance with state law, the Department prepares a biennial operating budget of expenditures for those operations subject to legislative appropriation. The budget is legally enacted as appropriations after approval of the Governor and the Legislature and is prepared essentially on the same modified accrual basis of accounting used to record actual expenditures. The Department receives funding from numerous sources (e.g., State General Fund, federal grants, etc.) which form the basis upon which the Department is appropriated; however, the Department also receives funding from federal and other sources that is not appropriated.

Budgetary control is maintained at the appropriation level. Expenditures may not legally exceed budgeted appropriations. The Department can only legally amend or transfer appropriations in accordance with Arizona Revised Statutes (ARS) § 35-173.C.-E. The Department Director, or designee, normally requests such a transfer through the Governor's Office of Strategic Planning and Budgeting and the Department of Administration.

Revenues are not budgeted at the agency level. Consequently, a statement of revenues, expenditures and changes in fund balance – budget and actual is not presented, but a statement of budget and actual expenditures is presented since that is the only comparison of the legally-adopted budget with actual data that can be made at the agency level.

Encumbrance accounting, under which purchase orders, contracts and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are cancelled. However, the Department of Administration – General Accounting Office is authorized to draw warrants against the available balances of appropriations for one month after the end of the fiscal year for payment of goods or services received but unpaid at the close of the fiscal year. Although, if a claim from the prior year is presented within one year and sufficient prior-year unexpended appropriations remain to pay the claim, the Department of Administration, upon approval of the claim, shall draw a warrant in payment of the claim, and the warrant shall be paid out of the fund from which the unused appropriations originated.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**E. Cash Equivalents**

For purposes of the statement of cash flows, the Department considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

All investments are stated at fair value.

**F. Inventories**

*Inventories for sale* consist of raw materials, work in process, finished goods, and retail merchandise of the Enterprise Fund. Such inventories are recorded as assets when purchased and expensed when sold. Raw materials are stated at cost using the first-in, first-out or specific identification method. Work in process is stated at cost using the percentage of completion method, finished goods are stated at cost using the job order costing method, and retail merchandise held for resale is stated at cost using the first-in, first-out method.

*Inventories of supplies* of the Governmental Funds are recorded at the time of purchase as expenditures in the funds from which the purchases were made. The Department uses the "purchase method" where amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and are offset by a fund balance reserve. These inventories are stated at cost using the first-in, first-out method.

*Inventory of food stamps* consists of all food stamp coupons held by the Department at fiscal year-end. This inventory is stated at coupon face value and is offset by deferred revenue in the General Fund.

*Inventories of supplies* of the Enterprise Fund are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the specific identification method.

**G. Fixed Assets**

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received. Depreciation on general fixed assets is not recorded.

Purchased fixed assets of the Enterprise Fund are capitalized at cost. Donated fixed assets are capitalized at their estimated fair market value at the time received. Depreciation of fixed assets in the Enterprise Fund is charged as an expense against operations.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	10-40 years
Improvements	15 years
Machinery and equipment	3-10 years

**H. Compensated Absences**

Compensated absences consist of vacation leave earned by employees based on services already rendered. The amount of leave Department employees earn is based on their length of employment with the State of Arizona. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements. The current portion of the liability that will be liquidated with available expendable financial resources of the General Fund has been accrued in that fund. Included in the accrual are anticipated salary-related benefits payments associated with the accrued leave.

The current portion of the liability for the Special Revenue Funds is not significant and, therefore, has not been accrued in those funds. However, that amount and the remaining noncurrent portion of the liability related to governmental funds are recorded in the General Long-Term Debt Account Group. Vested compensated absences of the Enterprise Fund are recorded as an expense and a liability of that fund as the benefits accrue to employees.

Employees may accumulate an unlimited number of sick leave hours. Generally, Sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Since sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of sick leave hours accumulated, up to a maximum amount of \$30,000. The Department makes contributions to the State's Retiree Accumulated Sick Leave Fund for each employee each pay period, and the State makes benefit payments directly to the retired employees. Consequently, the Department does not accrue a liability for these benefit payments in its financial statements.

**I. Deferred Revenue**

The amounts reported as deferred revenue are receivables, due from U.S. Government and due from other governments that are not available to finance expenditures of the current period and food stamp coupons on hand at June 30, 2001.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**J. Grants and Reimbursements**

Grants and assistance awards made on the basis of entitlement periods are recorded as due from U.S. Government and revenue when the entitlement occurs.

Reimbursement grants are recorded as due from U.S. Government and revenue when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenue. Food stamp benefits and Temporary Assistance for Needy Families cash assistance benefits are recorded as revenue when the benefits are distributed. When these benefits are distributed electronically, distribution takes place when the recipients use the benefits.

**K. Investment Income**

Investment income is composed of interest, dividends and net changes in the fair value of applicable investments.

**L. Memorandum Only**

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with GAAP and are not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

<b>NOTE 2 – CASH IN BANK</b>
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ARS stipulate that collateral is required for demand deposits, nonnegotiable certificates of deposit and repurchase agreements at 102 percent of all deposits not covered by federal depository insurance. At June 30, 2001, the carrying amount of the Department's total cash in bank was \$17,906,298 and the bank balance was \$28,663,262. Of the bank balance, \$1,612,220 was covered by federal depository insurance and \$27,051,042 was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**NOTE 3 – CASH AND INVESTMENTS HELD BY THE STATE TREASURER**

Cash of the various funds on deposit with the State Treasurer is pooled and invested. Interest earned from investments purchased with such pooled monies is generally deposited in the State General Fund. However, if authorized by statute and requested by the depositor, the Treasurer will invest the monies in a separate pool. The Department separately invested monies with the State Treasurer for the Homeless Trust and the Spinal and Head Injuries Special Revenue Funds; the Mesa Land Fund of the Expendable Trust Funds; and certain General and Enterprise Fund accounts. Interest earned from these separately pooled monies is allocated monthly to the participating funds of the Department based on their average daily balances. The fair value of the Department's position in the pool approximates the stated value of the Department's pool shares.

**NOTE 4 – DEPOSITS HELD BY THE U.S. TREASURY**

ARS § 23-703 requires that unemployment insurance contributions from Arizona employers be deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States that is established and maintained pursuant to § 1104 of the Social Security Act. Interest earned on these monies is deposited in the Department's Unemployment Insurance Benefits Fund.

**NOTE 5 – RECEIVABLES**

Receivables at year end, including the applicable allowances for uncollectible accounts, were as follows:

	General Fund	Special Revenue Funds	Enterprise Fund	Expendable Trust Funds	Agency Funds
Accounts receivable	\$ 27,431,338	\$ 4,117,742	\$ 694,922	\$ 24,798,666	
Interest receivable	228,826	18,388		14,605	\$ 6,375
Employers' UI contributions receivable				63,101,266	
Less allowances for uncollectibles	(7,958,379)	(1,828,798)		(44,339,269)	
Net total	<u>\$ 19,701,785</u>	<u>\$ 2,307,332</u>	<u>\$ 694,922</u>	<u>\$ 43,575,268</u>	<u>\$ 6,375</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**NOTE 6 – DUE FROM/TO OTHER FUNDS**

A summary of amounts due from other funds and due to other funds at June 30, 2001, follows.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 1,598,842	\$ 730,771
Special Revenue Funds:		
Public Assistance Collections	6,300	
Homeless Trust	13,786	
Spinal and Head Injuries	153,192	
Neighbors Helping Neighbors		1
Special Administration	825,383	
Child Protective Services Training		8,002
Capital Investment		90,750
Utility Assistance		945
Expendable Trust Funds:		
Unemployment Insurance Benefits		170,287
Agency Funds:		
Child Support Enforcement		1,596,747
Total	<u>\$ 2,597,503</u>	<u>\$ 2,597,503</u>

**NOTE 7 – CHANGES IN GENERAL FIXED ASSETS**

A summary of the changes in general fixed assets follows.

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 4,565,987			\$ 4,565,987
Buildings	34,474,708	\$ 899,344	\$ 27,411	35,346,641
Improvements	4,205,885			4,205,885
Machinery and equipment	54,352,054	13,827,331	7,163,895	61,015,490
Total	<u>\$ 97,598,634</u>	<u>\$ 14,726,675</u>	<u>\$ 7,191,306</u>	<u>\$ 105,134,003</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**NOTE 8 – INSTALLMENT PURCHASE CONTRACTS AND LEASE COMMITMENTS**

*Installment Purchase Contracts* – The Department has acquired computer equipment, telephone equipment, copiers and other office equipment under the provisions of various long-term installment purchase contracts. Title passes to the Department at the inception of the contract. Accordingly, assets acquired that meet the Department's capitalization policy are capitalized in the General Fixed Assets Account Group. The obligation for these contracts is recorded in the General Long-Term Debt Account Group. The future minimum payments under the contracts including interest, together with the present value of the net minimum contract payments at June 30, 2001, were as follows:

Year ending June 30,		
	2002	\$ 2,804,610
	2003	2,772,131
	2004	2,323,253
	2005	299,295
	Thereafter	4,312
Net minimum contract payments		8,203,601
Less amount representing interest		(561,177)
Present value of net minimum contract payments		<u>\$ 7,642,424</u>

A summary of the changes in installment purchase contracts follows.

Balance at July 1, 2000	\$ 1,575,801
Current year increase	7,550,652
Current year decrease	(1,484,029)
Balance at June 30, 2001	<u>\$ 7,642,424</u>

*Operating Leases* – The Department leases land, buildings, and computer systems under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$22,993,201 for the year ended June 30, 2001. The operating leases have remaining noncancelable lease terms of from one to five years and provide renewal options. The future minimum rental payments required under the operating leases at June 30, 2001, were as follows:

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

Year ending June 30,

2002	\$	21,856,465
2003		17,614,648
2004		13,921,546
2005		8,286,818
2006		3,415,039
Thereafter		186,847

Total minimum payments required

\$ 65,281,363

**NOTE 9 – COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences recorded in the General Long-Term Debt Account Group.

Balance at July 1, 2000	\$	13,548,591
Leave earned		20,709,638
Leave taken		(20,255,563)
Balance at June 30, 2001	\$	<u>14,002,666</u>

**NOTE 10 – ENTERPRISE FUND**

The Enterprise Fund consists solely of Arizona Industries for the Blind (AIB). Segment information is not presented since the Enterprise Fund columns on the financial statements report the activities and balances of AIB exclusively.

**NOTE 11 – RISK MANAGEMENT**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the State's self-insurance program, and in the opinion of Department management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona Comprehensive Annual Financial Report.

The Department carries additional insurance for other risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

Federal grants administered by the Department are subject to review and audit. In the opinion of the Department, any adjustments or repayments which may be required would not be significant to the overall financial condition of the Department. The State of Arizona has the ultimate fiscal responsibility for the Department. Accordingly, any claims requiring additional material resources would require the Arizona State Legislature to appropriate funds.

**NOTE 13 – BUDGET AND ACTUAL EXPENDITURES RECONCILIATION**

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for those operations of the Department subject to legislative appropriations in order to provide a meaningful comparison of actual results with the budget. The Department's budget is prepared on a basis consistent with GAAP for those operations budgeted, with certain exceptions. The budget is prepared by division within the Department, and budgeted amounts are not aggregated at the fund level. Adjustments necessary to reconcile expenditures on the GAAP basis to the budgetary basis follow:

Total expenditures reported in the General and Special Revenue Funds - GAAP basis of accounting:	\$ 1,724,685,256
Adjustments:	
Basis differences -	
To adjust for appropriation transfers recognized as expenditures for budgetary reporting purposes	23,600,000
To adjust for budget year 2000 and prior administrative adjustments of legislative appropriations eliminated for budgetary reporting purposes	(9,951,521)
To adjust for anticipated budget year 2001 administrative adjustments of legislative appropriations and unexpended budget authority in federally funded programs recognized as expenditures for budgetary reporting purposes	48,059,400
Entity difference -	
To adjust for expenditures from nonappropriated sources	(700,805,435)
Total expenditures reported in the Statement of Expenditures - Budget and Actual (Budget Basis) - General Fund and Other Appropriated Funds	<u><u>\$ 1,085,587,700</u></u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Notes to Financial Statements**  
**June 30, 2001**

**NOTE 14 – RELATED PARTY TRANSACTIONS**

The Arizona Health Care Cost Containment System (AHCCCS) contracts with the Department to provide health care services to eligible enrollees of the AHCCCS Arizona Long-Term Care System and the Comprehensive Medical and Dental Program. In addition, the Department performs eligibility determinations for certain categorical members of the AHCCCS program. During the year ended June 30, 2001, the Department recognized revenues from these contracts totaling \$422,842,166 that were reported in the General Fund as grants and reimbursements revenues. Additional related party transactions, insignificant in amount, resulting from providing services to or receiving services from other state agencies were included in various revenues and expenditures in the financial statements.

**NOTE 15 – RETIREMENT PLAN**

*Plan Description* – The Department contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

*Funding Policy* – The Arizona State Legislature establishes and may amend active plan members' and the Department's contribution rate. For the year ended June 30, 2001, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Department's contributions to the System for the years ended June 30, 2001, 2000 and 1999 were \$4,848,435, \$4,639,030, and \$6,044,109, respectively, which were equal to the required contributions for those years.

**NOTE 16 – IMPLEMENTATION OF GASB STATEMENT NO. 34**

Beginning with fiscal year 2002, the Department will prepare its financial statements to be included in the State of Arizona Comprehensive Annual Financial Report, following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS  
AND  
GENERAL FIXED ASSETS  
ACCOUNT GROUP SCHEDULES



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Special Revenue Funds**  
**Combining Statements**  
**Fiscal Year Ended June 30, 2001**

Tobacco Tax—This fund consists of monies transferred by the Arizona Health Care Cost Containment System from the medically needy account of the tobacco tax and health care fund to the Department's Aging and Adult Administration (AAA) as required by Arizona Revised Statutes (ARS) § 36-2921. All expenditures of the fund must be for services to older Arizonans who meet the low-income eligibility criteria developed by AAA and in accordance with ARS § 46-192.

Public Assistance Collections—This fund receives monies from a portion of the collections of public assistance overpayments. ARS § 46-295 requires that 25 percent of the state share of collected overpayments for the Temporary Assistance for Needy Families, Foster Care and General Assistance programs be deposited into this fund. These monies are then restricted to use in enhancing the collection efforts of the Department.

Domestic Violence Shelter—This fund was established by ARS § 36-3002. This fund is supported by state income tax checkoff, and by marriage and divorce fees. Expenditures of the fund provide shelter and supportive services to victims of domestic violence and their families through a statewide network of private nonprofit shelter facilities and safe houses.

Homeless Trust—This fund was established by ARS § 41-2021. The fund's revenues consist of monies from unclaimed property, public donations, and interest on investments. Expenditures of the fund are for homeless shelter and supportive services.

Spinal and Head Injuries—This fund was established by ARS § 41-3203. The fund's revenues are from assessments on speeding violations pursuant to ARS § 12-116.02 and interest on investments. Expenditures from this fund are for rehabilitation, transitional living and equipment for necessary activities of daily living for disabled individuals with head or spinal injuries.

Neighbors Helping Neighbors—This fund was established by ARS § 46-741. Taxpayers may voluntarily contribute a portion of their state tax refunds to this fund. The fund provides eligible recipients with assistance in paying utility bills, conserving energy and weatherization costs.

Child Abuse Prevention—This fund is authorized by ARS § 8-550.01. The revenues in this fund are from contributions through a state income tax checkoff, surcharges on marriage licenses and divorce filings, and private donations. Expenditures of the fund are for financial assistance to community child abuse and neglect prevention programs and family resource programs that offer prevention services and family resources programs to children and their parents or guardians.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Special Revenue Funds**  
**Combining Statements**  
**Fiscal Year Ended June 30, 2001**

Special Administration—This fund consists of interest and penalties collected from employers who fail to make timely contributions to the unemployment insurance program. It was established by the Employment Security Act of Arizona, ARS § 23-705. All expenditures of the fund must be in accordance with ARS § 23-706 and be approved by the Department of Administration.

Special Olympics—This fund was established by ARS § 41-173. The revenues in this fund are from contributions through a state income tax checkoff and other private gifts and grants. Expenditures are restricted to contracts with the Special Olympics Arizona as a Corporation for the delivery of services essential to the special olympics programs.

Child Protective Service (CPS) Training—This fund is authorized by ARS § 8-503.01. The fund receives monies from a percentage of the collections of court-ordered parental assessments and assessments on a child or the child's estate of a child in custody of the Department or a county juvenile probation office. The funds are typically expended for the purpose of training public and private child protective service workers.

Child Passenger Restraint—This fund was established under ARS § 28-907.I. The revenues in this fund are from fines levied against persons violating the child passenger restraint requirements and any public donations for the child passenger restraint program. All expenditures from this fund are solely for the purchase of child passenger restraint systems that must be provided to hospitals, public or private agencies providing shelter services to victims of domestic violence or homeless families, or health clinics.

Capital Investment—This fund was established under ARS § 4-116. The fund receives revenues from liquor club licenses and applications. The expenditures from this fund are for the purchase of buildings, equipment or other capital investments by the Division of Developmental Disabilities.

Utility Assistance—This fund is authorized by ARS § 46-731. The revenues in this fund are subscribers' utility deposits that remain unclaimed after two years, plus any interest accrued on the deposits less any lawful deduction ordered to be refunded by a court or administrative agency. These revenues are to be used to assist eligible recipients for the purpose of making utility deposits and owner repairs to utility related appliances or systems. All disbursements from the fund must be to designated community action or other agencies currently providing energy assistance to eligible recipients. Monies in the fund should not exceed \$1,000,000.



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Balance Sheet -**  
**Special Revenue Funds**  
**June 30, 2001**

	<b>Tobacco Tax</b>	<b>Public Assistance Collections</b>	<b>Domestic Violence Shelter</b>	<b>Homeless Trust</b>	<b>Spinal and Head Injuries</b>	<b>Neighbors Helping Neighbors</b>
<b>Assets</b>						
Cash and investments held by the State Treasurer	\$ 102,428	\$ 1,196,201	\$ 812,387	\$ 896,952	\$ 4,127,826	\$ 45,128
Receivables (net of allowances for uncollectibles):						
Accounts		2,145,337				
Interest				3,291	15,097	
Due from other funds		6,300		13,786	153,192	
Due from other state agencies	30,000		129,527		170,720	
<b>Total assets</b>	<b>\$ 132,428</b>	<b>\$ 3,347,838</b>	<b>\$ 941,914</b>	<b>\$ 914,029</b>	<b>\$ 4,466,835</b>	<b>\$ 45,128</b>
<b>Liabilities and Equity</b>						
<b>Liabilities</b>						
Accounts payable	\$ 102,181	\$ 593	\$ 29,264	\$ 3,499	\$ 121,813	\$ 1,672
Due to other funds						1
Deferred revenue		2,145,337				
<b>Total liabilities</b>	<b>102,181</b>	<b>2,145,930</b>	<b>29,264</b>	<b>3,499</b>	<b>121,813</b>	<b>1,673</b>
<b>Equity</b>						
Fund balances:						
Unreserved	30,247	1,201,908	912,650	910,530	4,345,022	43,455
<b>Total equity</b>	<b>30,247</b>	<b>1,201,908</b>	<b>912,650</b>	<b>910,530</b>	<b>4,345,022</b>	<b>43,455</b>
<b>Total liabilities and equity</b>	<b>\$ 132,428</b>	<b>\$ 3,347,838</b>	<b>\$ 941,914</b>	<b>\$ 914,029</b>	<b>\$ 4,466,835</b>	<b>\$ 45,128</b>

<b>Child Abuse Prevention</b>	<b>Special Administration</b>	<b>Special Olympics</b>	<b>CPS Training</b>	<b>Child Passenger Restraint</b>	<b>Capital Investment</b>	<b>Utility Assistance</b>	<b>Total</b>
\$ 1,266,523	\$ 2,871,987	\$ 56,622	\$ 646,313	\$ 122,795	\$ 210,559	\$ 417,171	\$ 12,772,892
			143,607				2,288,944
	825,383						18,388
668				19,703	4,950	905,023	998,661
<u>\$ 1,267,191</u>	<u>\$ 3,697,370</u>	<u>\$ 56,622</u>	<u>\$ 789,920</u>	<u>\$ 142,498</u>	<u>\$ 215,509</u>	<u>\$ 1,322,194</u>	<u>\$ 17,339,476</u>
\$ 141,097	\$ 6,256		\$ 34,658	\$ 101,517		\$ 42,404	\$ 584,954
			8,002		\$ 90,750	945	99,698
			143,607				2,288,944
<u>141,097</u>	<u>6,256</u>		<u>186,267</u>	<u>101,517</u>	<u>90,750</u>	<u>43,349</u>	<u>2,973,596</u>
<u>1,126,094</u>	<u>3,691,114</u>	<u>\$ 56,622</u>	<u>603,653</u>	<u>40,981</u>	<u>124,759</u>	<u>1,278,845</u>	<u>14,365,880</u>
<u>1,126,094</u>	<u>3,691,114</u>	<u>56,622</u>	<u>603,653</u>	<u>40,981</u>	<u>124,759</u>	<u>1,278,845</u>	<u>14,365,880</u>
<u>\$ 1,267,191</u>	<u>\$ 3,697,370</u>	<u>\$ 56,622</u>	<u>\$ 789,920</u>	<u>\$ 142,498</u>	<u>\$ 215,509</u>	<u>\$ 1,322,194</u>	<u>\$ 17,339,476</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances -**  
**Special Revenue Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Tobacco Tax</b>	<b>Public Assistance Collections</b>	<b>Domestic Violence Shelter</b>	<b>Homeless Trust</b>	<b>Spinal and Head Injuries</b>	<b>Neighbors Helping Neighbors</b>
<b>Revenues</b>						
Interest on investments				\$ 56,853	\$ 230,663	
Fines, forfeits and penalties			\$ 5,824		2,046,836	
Other:						
Fees and surcharges			1,340,665			
Use tax	\$ 499,234					
Unclaimed property						
Public assistance collections		\$ 350,981				
Licenses and applications						
Donations						\$ 38,800
<b>Total revenues</b>	<b>499,234</b>	<b>350,981</b>	<b>1,346,489</b>	<b>56,853</b>	<b>2,277,499</b>	<b>38,800</b>
<b>Expenditures - Current</b>						
<b>Health and Welfare:</b>						
Aid to individuals	509,585		1,699,646	6,000	966,992	36,588
Personal services		3,226			191,048	
Employee-related expenditures		619			43,768	
Professional and outside services		6,905			1,650	
Travel					4,648	
Capital outlay						
Other operating		3,617			35,059	
<b>Total expenditures</b>	<b>509,585</b>	<b>14,367</b>	<b>1,699,646</b>	<b>6,000</b>	<b>1,243,165</b>	<b>36,588</b>
Excess of revenues over (under) expenditures	(10,351)	336,614	(353,157)	50,853	1,034,334	2,212
<b>Other financing sources (uses)</b>						
Operating transfers in		5,943		13,786	153,192	
Operating transfers out		(147,005)		(25,437)	(285,090)	(674)
<b>Total other financing sources (uses)</b>		<b>(141,062)</b>		<b>(11,651)</b>	<b>(131,898)</b>	<b>(674)</b>
Excess of revenues and other sources over (under) expenditures and other uses	(10,351)	195,552	(353,157)	39,202	902,436	1,538
<b>Fund balances, July 1, 2000</b>	<b>40,598</b>	<b>1,006,356</b>	<b>1,265,807</b>	<b>871,328</b>	<b>3,442,586</b>	<b>41,917</b>
<b>Fund balances, June 30, 2001</b>	<b>\$ 30,247</b>	<b>\$ 1,201,908</b>	<b>\$ 912,650</b>	<b>\$ 910,530</b>	<b>\$ 4,345,022</b>	<b>\$ 43,455</b>

<u>Child Abuse Prevention</u>	<u>Special Administration</u>	<u>Special Olympics</u>	<u>CPS Training</u>	<u>Child Passenger Restraint</u>	<u>Capital Investment</u>	<u>Utility Assistance</u>	<u>Total</u>
							\$ 287,516
				\$ 196,142			2,248,802
\$ 852,786							2,193,451
							499,234
						\$ 905,024	905,024
							350,981
					\$ 48,725		48,725
		\$ 88,051	\$ 128,080				254,931
<u>852,786</u>		<u>88,051</u>	<u>128,080</u>	<u>196,142</u>	<u>48,725</u>	<u>905,024</u>	<u>6,788,664</u>
762,766	\$ 34,808	67,757		214,324		648,840	4,947,306
44,647							238,921
720							45,107
			39,074				47,629
			560				5,208
			200				200
							38,676
<u>808,133</u>	<u>34,808</u>	<u>67,757</u>	<u>39,834</u>	<u>214,324</u>		<u>648,840</u>	<u>5,323,047</u>
44,653	(34,808)	20,294	88,246	(18,182)	48,725	256,184	1,465,617
45,767	2,347,265		39,922				2,605,875
	(2,173,850)		(8,002)		(127,216)	(9,905)	(2,777,179)
<u>45,767</u>	<u>173,415</u>		<u>31,920</u>		<u>(127,216)</u>	<u>(9,905)</u>	<u>(171,304)</u>
90,420	138,607	20,294	120,166	(18,182)	(78,491)	246,279	1,294,313
<u>1,035,674</u>	<u>3,552,507</u>	<u>36,328</u>	<u>483,487</u>	<u>59,163</u>	<u>203,250</u>	<u>1,032,566</u>	<u>13,071,567</u>
<u>\$ 1,126,094</u>	<u>\$ 3,691,114</u>	<u>\$ 56,622</u>	<u>\$ 603,653</u>	<u>\$ 40,981</u>	<u>\$ 124,759</u>	<u>\$ 1,278,845</u>	<u>\$ 14,365,880</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Trust and Agency Funds**  
**Combining Statements**  
**Fiscal Year Ended June 30, 2001**

The Trust and Agency Funds account for assets held by the Department in a trustee or agency capacity for individuals, organizations, other governments or other funds.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Balance Sheet -**  
**Trust and Agency Funds**  
**June 30, 2001**

	<b>Fiduciary Funds</b>		
	<b>Expendable Trust</b>	<b>Agency</b>	<b>Total</b>
<b>Assets</b>			
Cash in bank	\$ 64,121	\$ 17,516,530	\$ 17,580,651
Cash and investments held by the State Treasurer	4,930,010	4,249,372	9,179,382
Deposits held by the U.S. Treasury	1,038,116,687		1,038,116,687
Receivables (net of allowances for uncollectibles):			
Accounts	4,392,693		4,392,693
Interest	14,605	6,375	20,980
Employers' unemployment insurance contributions	39,167,970		39,167,970
<b>Total assets</b>	<b>\$ 1,086,686,086</b>	<b>\$ 21,772,277</b>	<b>\$ 1,108,458,363</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Unemployment benefits payable	\$ 7,918,933		\$ 7,918,933
Accrued liabilities	6,572,409		6,572,409
Due to other funds	170,287	\$ 1,596,747	1,767,034
Deposits held for others		20,175,530	20,175,530
Deferred revenue	15,422,018		15,422,018
<b>Total liabilities</b>	<b>30,083,647</b>	<b>21,772,277</b>	<b>51,855,924</b>
<b>Equity</b>			
Fund balances:			
Reserved for:			
Unemployment insurance benefits	1,051,657,824		1,051,657,824
Other	4,944,615		4,944,615
<b>Total equity</b>	<b>1,056,602,439</b>		<b>1,056,602,439</b>
<b>Total liabilities and equity</b>	<b>\$ 1,086,686,086</b>	<b>\$ 21,772,277</b>	<b>\$ 1,108,458,363</b>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Expendable Trust Funds**  
**Combining Statements**  
**Fiscal Year Ended June 30, 2001**

Mesa Land—This fund was established when an individual willed land to the State of Arizona with the restriction that the earnings on the land be used to offset costs of care for individuals with developmental disabilities. The land was subsequently sold and the proceeds invested. Interest earnings on the investments are used for the designated purpose.

Unemployment Insurance Benefits—This fund is authorized by Arizona Revised Statutes § 23-701. The revenues of this fund are employers' unemployment insurance contributions and transfers from the federal government for various unemployment programs. Expenditures are made for the express purpose of providing unemployment benefits to the eligible claimants.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Balance Sheet -**  
**Expendable Trust Funds**  
**June 30, 2001**

	<b>Mesa Land</b>	<b>Unemployment Insurance Benefits</b>	<b>Total</b>
<b>Assets</b>			
Cash in bank		\$ 64,121	\$ 64,121
Cash and investments held by the State Treasurer	\$ 4,930,010		4,930,010
Deposits held by the U.S. Treasury		1,038,116,687	1,038,116,687
Receivables (net of allowances for uncollectibles):			
Accounts		4,392,693	4,392,693
Interest	14,605		14,605
Employers' unemployment insurance contributions		39,167,970	39,167,970
<b>Total assets</b>	<b>\$ 4,944,615</b>	<b>\$ 1,081,741,471</b>	<b>\$ 1,086,686,086</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Unemployment benefits payable		\$ 7,918,933	\$ 7,918,933
Accrued liabilities		6,572,409	6,572,409
Due to other funds		170,287	170,287
Deferred revenue		15,422,018	15,422,018
<b>Total liabilities</b>		<b>30,083,647</b>	<b>30,083,647</b>
<b>Equity</b>			
Fund balances:			
Reserved for:			
Unemployment insurance benefits		1,051,657,824	1,051,657,824
Other	\$ 4,944,615		4,944,615
<b>Total equity</b>	<b>4,944,615</b>	<b>1,051,657,824</b>	<b>1,056,602,439</b>
<b>Total liabilities and equity</b>	<b>\$ 4,944,615</b>	<b>\$ 1,081,741,471</b>	<b>\$ 1,086,686,086</b>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances -**  
**Expendable Trust Funds**  
**Fiscal Year Ended June 30, 2001**

	<b>Mesa Land</b>	<b>Unemployment Insurance Benefits</b>	<b>Total</b>
<b>Revenues</b>			
Grants and reimbursements		\$ 9,116,420	\$ 9,116,420
Employers' unemployment insurance contributions		175,736,341	175,736,341
Interest on investments	\$ 308,137	65,852,599	66,160,736
Interest and penalties		1,690,075	1,690,075
Other		36,363	36,363
<b>Total revenues</b>	<u>308,137</u>	<u>252,431,798</u>	<u>252,739,935</u>
<b>Expenditures - Current</b>			
<b>Health and Welfare:</b>			
Aid to individuals		212,471,298	212,471,298
<b>Total expenditures</b>		<u>212,471,298</u>	<u>212,471,298</u>
Excess of revenues over expenditures	<u>308,137</u>	<u>39,960,500</u>	<u>40,268,637</u>
<b>Other financing uses</b>			
Operating transfers out	(545,526)	(2,060,828)	(2,606,354)
<b>Total other financing uses</b>	<u>(545,526)</u>	<u>(2,060,828)</u>	<u>(2,606,354)</u>
Excess of revenues over (under) expenditures and other uses	(237,389)	37,899,672	37,662,283
<b>Fund balances, July 1, 2000</b>	<u>5,182,004</u>	<u>1,013,758,152</u>	<u>1,018,940,156</u>
<b>Fund balances, June 30, 2001</b>	<u>\$ 4,944,615</u>	<u>\$ 1,051,657,824</u>	<u>\$ 1,056,602,439</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Agency Funds**  
**Combining Statements**  
**Fiscal Year Ended June 30, 2001**

Client Trust—This fund was established pursuant to ARS § 41-1954 and contains monies from clients' eligibility for assistance, including Social Security, Supplemental Security Income, Veteran's Assistance, Railroad Retirement benefits, etc. These monies received on behalf of clients are disbursed based on individual spending plans or for reimbursement of services provided by the Division of Developmental Disabilities and for foster care and adoption services provided by the Administration for Children, Youth and Families.

Developmental Disabilities (DD) Client Investment—This fund was established by ARS § 36-571 and consists of client monies, such as Social Security, Supplemental Security Income, earnings, etc. These monies are used for individual client needs, such as clothing, food, education, etc. Idle monies from this fund are invested with the State Treasurer, with interest earned distributed to individual client account balances.

Child Support Enforcement—This fund was established by ARS § 46-441 and is a clearing account that contains child support monies collected from noncustodial parents on behalf of their children. The collected amounts remain in this fund until appropriate distributions are determined and disbursement is made to the appropriate parties.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Balance Sheet -**  
**Agency Funds**  
**June 30, 2001**

	<u>Client Trust</u>	<u>DD Client Investment</u>	<u>Child Support Enforcement</u>	<u>Total</u>
<b>Assets</b>				
Cash in bank		\$ 774,179	\$ 16,742,351	\$ 17,516,530
Cash and investments held by the State Treasurer	\$ 2,145,142	2,104,230		4,249,372
Interest receivable		6,375		6,375
<b>Total assets</b>	<u>\$ 2,145,142</u>	<u>\$ 2,884,784</u>	<u>\$ 16,742,351</u>	<u>\$ 21,772,277</u>
<b>Liabilities</b>				
Due to other funds			\$ 1,596,747	\$ 1,596,747
Deposits held for others	\$ 2,145,142	\$ 2,884,784	15,145,604	20,175,530
<b>Total liabilities</b>	<u>\$ 2,145,142</u>	<u>\$ 2,884,784</u>	<u>\$ 16,742,351</u>	<u>\$ 21,772,277</u>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**Fiscal Year Ended June 30, 2001**

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2001</u>
<b><u>Client Trust</u></b>				
<b>Assets</b>				
Cash and investments held by the State Treasurer	\$ 2,377,712	\$ 1,558,820	\$ 1,791,390	\$ 2,145,142
<b>Liabilities</b>				
Deposits held for others	\$ 2,377,712	\$ 1,558,820	\$ 1,791,390	\$ 2,145,142
<b><u>DD Client Investment</u></b>				
<b>Assets</b>				
Cash in bank	\$ 636,878	\$ 11,538,510	\$ 11,401,209	\$ 774,179
Cash and investments held by the State Treasurer	2,176,918	144,416	217,104	2,104,230
Interest receivable	13,968	6,375	13,968	6,375
<b>Total assets</b>	<b>\$ 2,827,764</b>	<b>\$ 11,689,301</b>	<b>\$ 11,632,281</b>	<b>\$ 2,884,784</b>
<b>Liabilities</b>				
Deposits held for others	\$ 2,827,764	\$ 11,689,301	\$ 11,632,281	\$ 2,884,784
<b>Total liabilities</b>	<b>\$ 2,827,764</b>	<b>\$ 11,689,301</b>	<b>\$ 11,632,281</b>	<b>\$ 2,884,784</b>
<b><u>Child Support Enforcement</u></b>				
<b>Assets</b>				
Cash in bank	\$ 20,981,698	\$ 505,099,443	\$ 509,338,790	\$ 16,742,351
<b>Total assets</b>	<b>\$ 20,981,698</b>	<b>\$ 505,099,443</b>	<b>\$ 509,338,790</b>	<b>\$ 16,742,351</b>
<b>Liabilities</b>				
Due to other funds	\$ 2,737,123	\$ 27,056,343	\$ 28,196,719	\$ 1,596,747
Deposits held for others	18,244,575	478,043,100	481,142,071	15,145,604
<b>Total liabilities</b>	<b>\$ 20,981,698</b>	<b>\$ 505,099,443</b>	<b>\$ 509,338,790</b>	<b>\$ 16,742,351</b>
<b><u>Total - All Agency Funds</u></b>				
<b>Assets</b>				
Cash in bank	\$ 21,618,576	\$ 516,637,953	\$ 520,739,999	\$ 17,516,530
Cash and investments held by the State Treasurer	4,554,630	1,703,236	2,008,494	4,249,372
Interest receivable	13,968	6,375	13,968	6,375
<b>Total assets</b>	<b>\$ 26,187,174</b>	<b>\$ 518,347,564</b>	<b>\$ 522,762,461</b>	<b>\$ 21,772,277</b>
<b>Liabilities</b>				
Due to other funds	\$ 2,737,123	\$ 27,056,343	\$ 28,196,719	\$ 1,596,747
Deposits held for others	23,450,051	491,291,221	494,565,742	20,175,530
<b>Total liabilities</b>	<b>\$ 26,187,174</b>	<b>\$ 518,347,564</b>	<b>\$ 522,762,461</b>	<b>\$ 21,772,277</b>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**General Fixed Assets Account Group**  
**Schedules**  
**Fiscal Year Ended June 30, 2001**

The General Fixed Assets Account Group accounts for fixed assets of the Department other than those recorded in the Enterprise Fund. Depreciation is not recorded on general fixed assets.

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Schedule of General Fixed Assets by Function and Activity**  
**June 30, 2001**

<b>Function/Activity</b>	<b>Land</b>	<b>Buildings</b>	<b>Improvements</b>	<b>Machinery and Equipment</b>	<b>Total</b>
<b>Health and Welfare:</b>					
Administration	\$ 28,017	\$ 309,947	\$	\$ 747,976	\$ 1,085,940
Governor's Advisory Council on Aging	1,438			14,375	15,813
Governor's Council on Developmental Disabilities	3,564	40,560		9,266	53,390
Arizona Early Intervention Program				60,095	60,095
Division of Business and Finance	667,072	1,597,744	19,698	2,573,546	4,858,060
Division of Technology Services	72,767	2,697,440		20,515,509	23,285,716
Division of Policy and Program Development	17,512	68,941		162,145	248,598
Division of Benefits and Medical Eligibility:					
Disability Determination Services Administration				1,535,179	1,535,179
Family Assistance Administration	686,483	3,864,688	150,739	7,587,252	12,289,162
Office of Program Evaluation				179,008	179,008
Division of Developmental Disabilities	1,850,281	19,702,248	3,889,453	5,354,047	30,796,029
Division of Employee Services and Support	143,601	697,647		979,010	1,820,258
Division of Employment and Rehabilitation Services:					
Child Care Administration	70,452	263,490	16,001	571,319	921,262
Employment Security Administration	679,004	4,013,898	63,921	5,581,141	10,337,964
Jobs Program	23,739	254,413	5,770	560,930	844,852
Workforce Investment Act	8,414			670,662	679,076
Rehabilitation Services Administration	61,959	497,733	32,428	4,456,135	5,048,255
Division of Aging and Community Services:					
Aging and Adult Administration	23,323	194,827	4,172	525,302	747,624
Community Services Administration	14,217			451,555	465,772
Intergovernmental Operations				16,114	16,114
Division of Children, Youth and Families:					
Administration for Children, Youth and Families	199,804	1,143,065	23,703	4,923,150	6,289,722
Comprehensive Medical and Dental Program				173,626	173,626
Finance and Business Operations	14,340			628,511	642,851
Division of Child Support Enforcement				2,739,637	2,739,637
<b>Total general fixed assets</b>	<b>\$ 4,565,987</b>	<b>\$ 35,346,641</b>	<b>\$ 4,205,885</b>	<b>\$ 61,015,490</b>	<b>\$ 105,134,003</b>

**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Schedule of Changes in General Fixed Assets by Function and Activity**  
**For the Fiscal Year Ended June 30, 2001**

<b>Function/Activity</b>	<b>General Fixed Assets July 1, 2000</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>General Fixed Assets June 30, 2001</b>
<b>Health and Welfare:</b>					
Administration	\$ 8,650,850	\$ 159,694	\$ 8,279	\$ (7,716,325)	\$ 1,085,940
Governor's Advisory Council on Aging	55,550			(39,737)	15,813
Governor's Council on Developmental Disabilities	57,316			(3,926)	53,390
Arizona Early Intervention Program	67,233	2,620	20,001	10,243	60,095
Division of Business and Technology Services	24,521,978			(24,521,978)	
Division of Business and Finance		200,243	162,448	4,820,265	4,858,060
Division of Technology Services		7,548,408	3,565,971	19,303,279	23,285,716
Division of Policy and Program Development	550,782	25,494	25,236	(302,442)	248,598
Division of Benefits and Medical Eligibility:					
Disability Determination Services Administration	1,436,485	227,463	128,769		1,535,179
Family Assistance Administration	9,518,297	935,915	887,086	2,722,036	12,289,162
Office of Program Evaluation	145,339	12,566	25,229	46,332	179,008
Division of Developmental Disabilities	28,190,443	1,653,294	618,237	1,570,529	30,796,029
Division of Employee Services and Support	1,246,084	103,210	298,100	769,064	1,820,258
Division of Employment and Rehabilitation Services:					
Child Care Administration	848,285	8,633	31,220	95,564	921,262
Employment Security Administration	8,865,289	1,723,491	317,929	67,113	10,337,964
Jobs Program	840,946	781	90,787	93,912	844,852
Workforce Investment Act	612,519	41,547	16,026	41,036	679,076
Rehabilitation Services Administration	3,704,705	1,232,351	93,359	204,558	5,048,255
Division of Aging and Community Services:					
Aging and Adult Administration	595,691	43,772	50,211	158,372	747,624
Community Services Administration	528,726		70,626	7,672	465,772
Intergovernmental Operations				16,114	16,114
Division of Children, Youth and Families:					
Administration for Children, Youth and Families	4,606,051	458,300	347,895	1,573,266	6,289,722
Comprehensive Medical and Dental Program	165,695	7,681		250	173,626
Finance and Business Operations		20,660	22,198	644,389	642,851
Division of Child Support Enforcement	2,390,370	320,552	411,699	440,414	2,739,637
<b>Total general fixed assets</b>	<b>\$ 97,598,634</b>	<b>\$ 14,726,675</b>	<b>\$ 7,191,306</b>	<b>\$ 0</b>	<b>\$ 105,134,003</b>

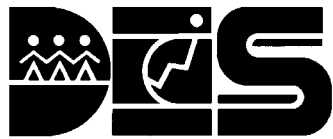
**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Schedule of General Fixed Assets by Source**  
**June 30, 2001**

**General Fixed Assets:**

Land	\$ 4,565,987
Buildings	35,346,641
Improvements	4,205,885
Machinery and equipment	<u>61,015,490</u>
<b>Total general fixed assets</b>	<b><u>\$ 105,134,003</u></b>

**Investment in General Fixed Assets by Source:**

General Fund	\$ 66,056,543
Special Revenue Funds	252,879
Trust and Agency Funds	280,564
Fixed assets - initial inventory	<u>38,544,017</u>
<b>Total investment in general fixed assets by source</b>	<b><u>\$ 105,134,003</u></b>



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**A DEPARTMENT OF THE STATE OF ARIZONA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**STATISTICAL SECTION**



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Statistical Section Introduction**  
**June 30, 2001**

The Department of Economic Security (Department) presents statistical tables in its Comprehensive Annual Financial Report (CAFR) that are relative to its operations as a human services agency of the State of Arizona. Those tables are as follows:

- Comparison Between Arizona and United States Population—Last Ten Calendar Years
- Comparison Between Arizona and United States Per Capita Income—Last Ten Calendar Years
- Expenditures by Function and Funding Source (Governmental and Expendable Trust Funds)—Last Ten Fiscal Years
- Revenues by Funding Source (Governmental and Expendable Trust Funds)—Last Ten Fiscal Years
- Comparison Between Arizona and United States Unemployment—Last Ten Calendar Years
- Unemployment Insurance Financial Transaction Summary—Last Ten Fiscal Years
- Food Stamp Benefits Participants—Last Ten Fiscal Years
- Temporary Assistance for Needy Families—Last Ten Fiscal Years
- General Assistance—Last Ten Fiscal Years
- Jobs Program—Comparison of Participants and Participants Employed to the Percentage Retained—Last Ten Fiscal Years
- Child Support Enforcement Collections—Last Ten Fiscal Years

Certain statistical tables typical to a CAFR are not presented in the Department's CAFR as such tables do not apply to the Department. For information regarding data applicable to the State of Arizona, please refer to the State of Arizona CAFR for the year ended June 30, 2001.

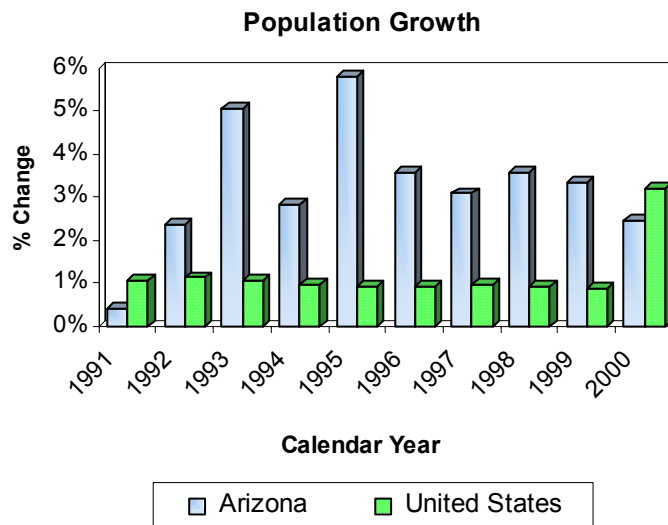
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Comparison Between Arizona and United States**  
**Population**  
**For the Calendar Years Ended December 31**

<u>Year</u>	<u>Arizona Population</u>	<u>United States Population</u>	<u>Percentage Change in Arizona Population</u>	<u>Percentage Change in U.S. Population</u>
1991	3,680,000	252,153,000	0.41%	1.08%
1992	3,767,000	255,030,000	2.36%	1.14%
1993	3,958,000	257,783,000	5.07%	1.08%
1994	4,071,000	260,327,000	2.85%	0.99%
1995	4,307,000	262,803,000	5.80%	0.95%
1996	4,462,000	265,229,000	3.60%	0.92%
1997	4,600,000	267,784,000	3.09%	0.96%
1998	4,764,000	270,248,000	3.57%	0.92%
1999	4,924,000	272,691,000	3.36%	0.90%
2000	5,045,000	281,422,000	2.46%	3.20%

Source: The United States Bureau of Economic Analysis; and the Arizona Department of Economic Security, Research Administration.

Note: The information contained in the sources used for this table is revised on a continuing basis and, accordingly, the amounts in the above table have been revised. Therefore, amounts presented for some years may not match the amounts presented in the Department's CAFR for the prior years.



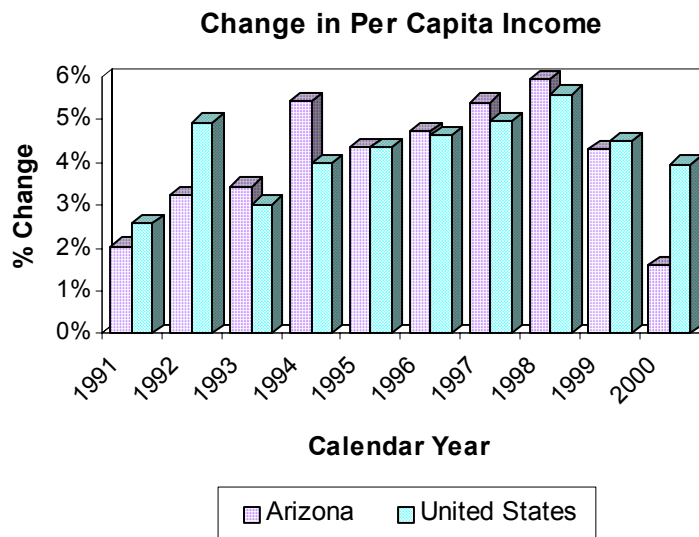
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Comparison Between Arizona and United States**  
**Per Capita Income**  
**For the Calendar Years Ended December 31**

<u>Year</u>	<u>Arizona Per Capita Income</u>	<u>U.S. Per Capita Income</u>	<u>Percentage Change in Arizona Per Capita Income</u>	<u>Percentage Change in U.S. Per Capita Income</u>
1991	\$ 17,563	\$ 20,089	2.05%	2.58%
1992	18,131	21,082	3.23%	4.94%
1993	18,756	21,718	3.45%	3.02%
1994	19,774	22,581	5.43%	3.97%
1995	20,634	23,562	4.35%	4.34%
1996	21,611	24,651	4.73%	4.62%
1997	22,780	25,874	5.41%	4.96%
1998	24,133	27,321	5.94%	5.59%
1999	25,173	28,546	4.31%	4.48%
2000	25,578	29,676	1.61%	3.96%

Source: The United States Bureau of Economic Analysis.

Note: The information contained in the sources used for this table is revised on a continuing basis and, accordingly, the amounts in the above table have been revised. Therefore, amounts presented for some years may not match the amounts presented in the Department's CAFR for the prior years.



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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Expenditures by Function and Funding Source**  
**(Governmental and Expendable Trust Funds)**  
**For the Fiscal Years Ended June 30**

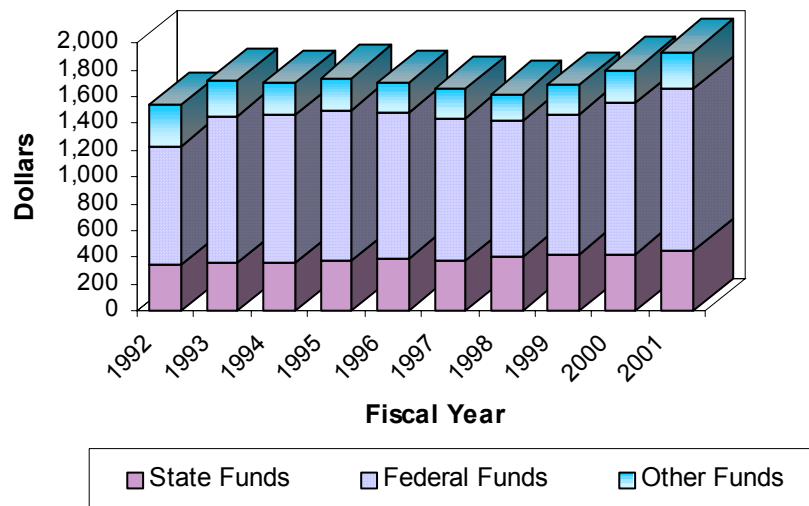
**HEALTH AND WELFARE:**

Year	State Funds	Federal Funds	Other Funds	Total Funds
1992	\$ 343,758,700	\$ 888,109,515	\$ 306,811,857	\$ 1,538,680,072
1993	360,053,000	1,097,998,692	258,209,249	1,716,260,941
1994	353,782,600	1,111,025,346	238,523,964	1,703,331,910
1995	372,114,400	1,129,460,885	240,231,124	1,741,806,409
1996	386,169,400	1,092,763,240	225,288,163	1,704,220,803
1997	370,757,400	1,072,660,950	216,699,361	1,660,117,711
1998	400,340,700	1,018,548,228	202,518,001	1,621,406,929
1999	425,235,500	1,045,925,462	220,049,050	1,691,210,012
2000	422,155,816	1,134,907,352	241,950,698	1,799,013,866
2001	442,940,537	1,215,771,799	278,444,218	1,937,156,554

Source: The Arizona Department of Economic Security, Office of the Budget, Unaudited, 1992; Audited Annual Financial Report, 1993; and Audited Comprehensive Annual Financial Report, 1994, 1995, 1996, 1997, 1998, 1999, 2000 and 2001.

Note: The Federal Funds amounts include amounts for food stamp benefits distributed.

**Expenditures by Function and Funding Source**  
**(In millions)**



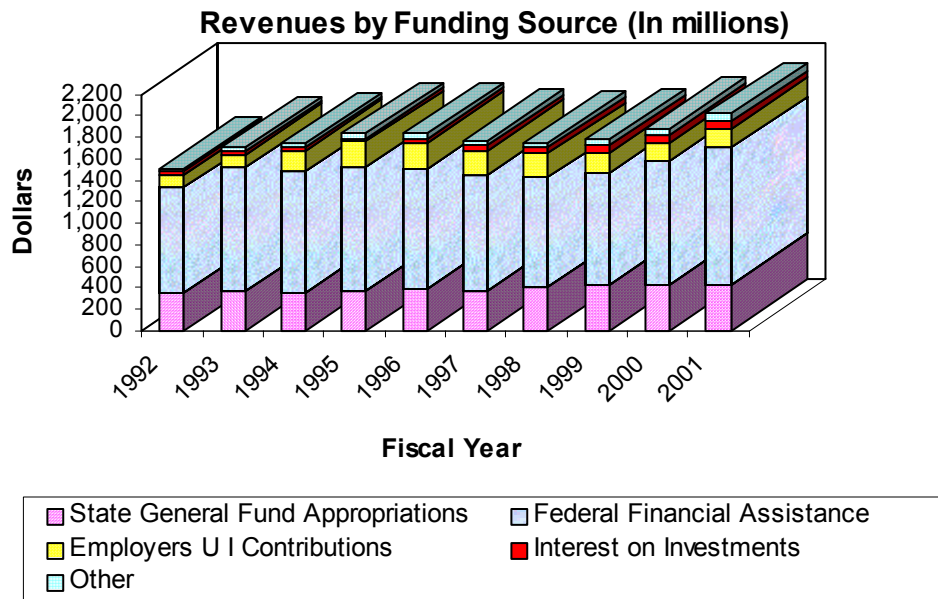
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Revenues by Funding Source**  
**(Governmental and Expendable Trust Funds)**  
**For the Fiscal Years Ended June 30**

Year	State General Fund Appropriations	Federal Financial Assistance	Employers UI Contributions	Interest on Investments	Other	Total
1992	\$ 357,457,800	\$ 972,447,084	\$ 128,042,602	\$ 36,066,284	\$ 14,136,310	\$ 1,508,150,080
1993	367,363,500	1,148,257,103	124,081,164	29,012,139	32,186,623	1,700,900,529
1994	356,801,100	1,121,879,899	201,229,020	26,681,446	37,330,662	1,743,922,127
1995	379,581,100	1,142,831,235	235,800,076	30,346,709	45,731,486	1,834,290,606
1996	397,217,300	1,110,112,146	239,480,340	38,861,761	48,154,973	1,833,826,520
1997	373,669,400	1,078,901,892	225,101,956	43,414,155	47,406,581	1,768,493,984
1998	409,640,900	1,016,492,399	223,517,434	51,591,704	49,907,366	1,751,149,803
1999	425,530,200	1,045,521,174	191,326,704	58,281,429	56,212,888	1,776,872,395
2000	434,171,319	1,143,846,770	177,603,712	64,010,350	57,845,055	1,877,477,206
2001	434,834,859	1,267,241,399	175,736,341	69,609,832	61,579,318	2,009,001,749

Source: The Arizona Department of Economic Security, Office of Finance, Unaudited, 1992; Audited Annual Financial Report, 1993; and Audited Comprehensive Annual Financial Report, 1994, 1995, 1996, 1997, 1998, 1999, 2000 and 2001.

Note: The Federal Financial Assistance amounts include amounts for food stamp benefits distributed.



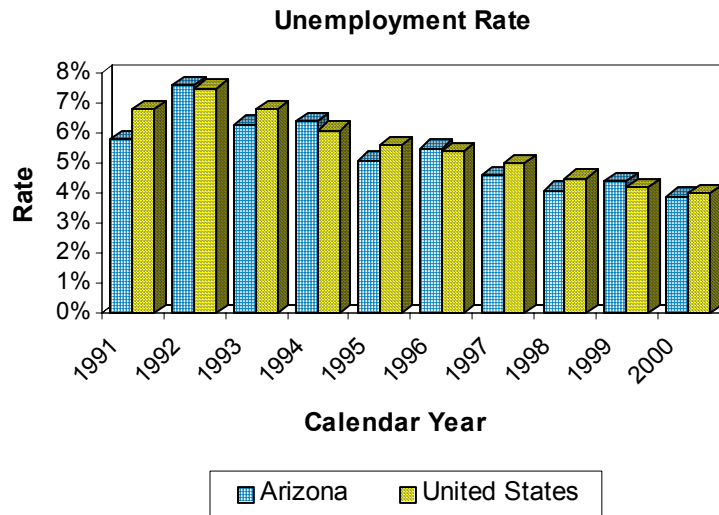
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Comparison Between Arizona and United States Unemployment**  
**For the Calendar Years Ended December 31**

<u>Year</u>	<u>Number of Unemployed - Arizona</u>	<u>Number of Unemployed - U.S.</u>	<u>Unemployment Rate - Arizona</u>	<u>Unemployment Rate - U.S.</u>
1991	103,000	8,640,000	5.80%	6.80%
1992	139,000	9,611,000	7.60%	7.50%
1993	115,000	8,927,000	6.30%	6.80%
1994	128,000	7,976,000	6.40%	6.10%
1995	115,000	7,407,000	5.10%	5.60%
1996	122,000	7,231,000	5.50%	5.40%
1997	101,000	6,727,000	4.60%	5.00%
1998	93,000	6,204,000	4.10%	4.50%
1999	104,000	5,879,000	4.40%	4.20%
2000	91,000	5,652,000	3.90%	4.00%

Source: The Arizona Department of Economic Security, Research Administration, Economic Analysis; and the United States Department of Labor, Monthly Labor Review.

Note: The information contained in the sources used for this table is revised on a continuing basis and, accordingly, the amounts in the above table have been revised. Therefore, amounts presented for some years may not match the amounts presented in the Department's CAFR for the prior years.



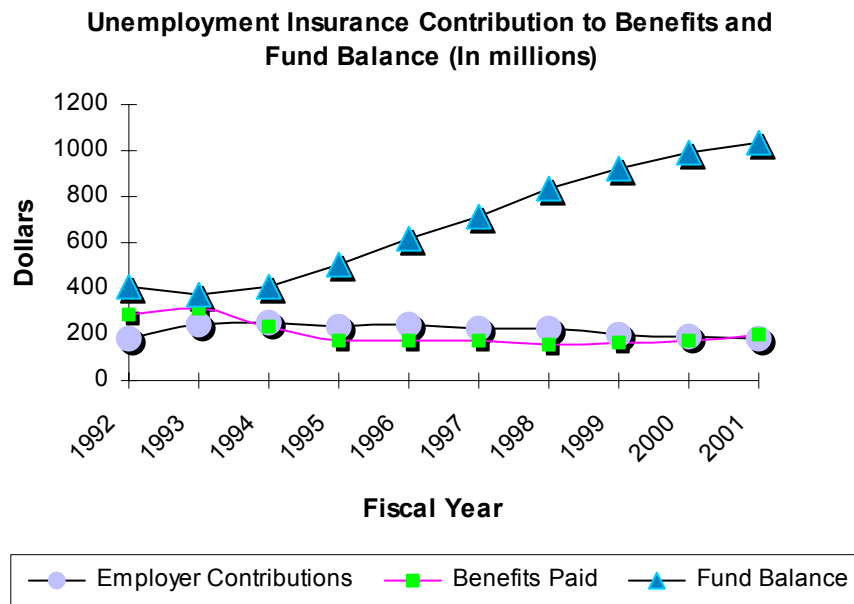
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Unemployment Insurance Financial Transaction Summary**  
**For the Fiscal Years Ended June 30**

Year	Total Employer Contributions	Total Benefits Paid	Trust Fund Balance
1992	\$ 178,838,516	\$ 284,087,630	\$ 406,935,508
1993	247,003,400	311,482,824	372,205,292
1994	253,105,103	238,666,989	412,794,159
1995	236,679,799	173,317,247	504,536,522
1996	240,046,970	177,755,864	613,437,439
1997	227,644,491	172,336,147	711,845,399
1998	228,236,334	159,930,580	831,262,488
1999	200,221,238	169,265,609	919,819,409
2000	188,348,457	177,980,914	993,052,630
2001	182,095,014	202,900,332	1,038,116,687

Source: The Arizona Department of Economic Security, Unemployment Insurance Financial Transaction Summary Report.

Note: The total benefits paid amount for all fiscal years has been adjusted to include interstate benefits.

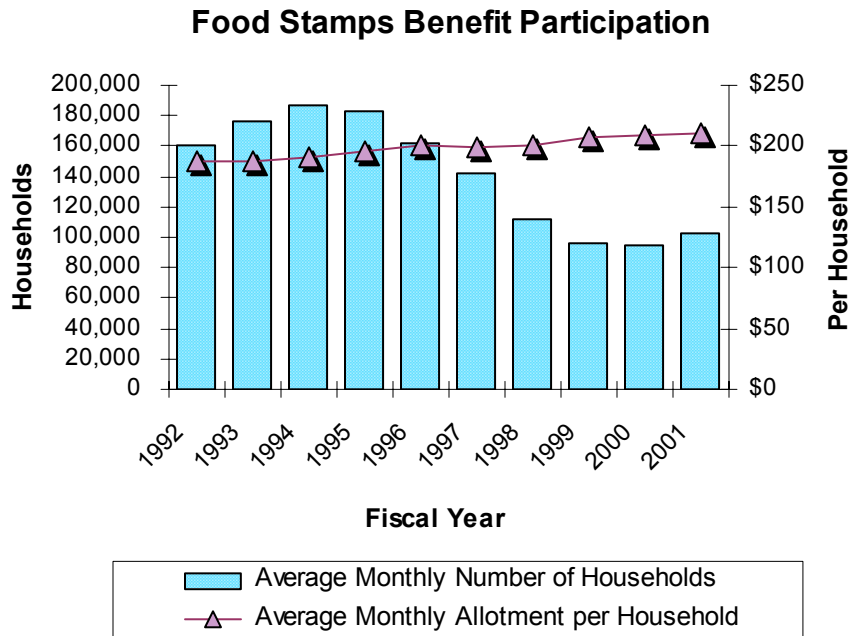


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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Food Stamp Benefits Participants**  
**For the Fiscal Years Ended June 30**

<u>Year</u>	<u>Average Monthly Number of Households</u>	<u>Average Monthly Number of Persons</u>	<u>Average Monthly Allotment Per Household</u>	<u>Average Monthly Allotment Per Person</u>	<u>Average Monthly Benefits Distributed</u>
1992	160,498	443,310	\$ 187.12	\$ 67.75	\$ 30,032,306
1993	175,686	480,865	186.92	68.29	32,838,478
1994	186,714	510,477	190.10	69.53	35,494,355
1995	182,782	494,637	195.05	72.08	35,651,359
1996	161,415	434,542	200.91	74.63	32,429,993
1997	141,981	385,061	199.34	73.50	28,302,483
1998	112,345	311,142	201.11	72.61	22,593,553
1999	95,938	260,736	207.73	76.43	19,929,511
2000	95,238	257,989	208.83	77.09	19,889,001
2001	102,307	277,192	211.04	77.89	21,590,998

Source: The Arizona Department of Economic Security, Family Assistance Administration.

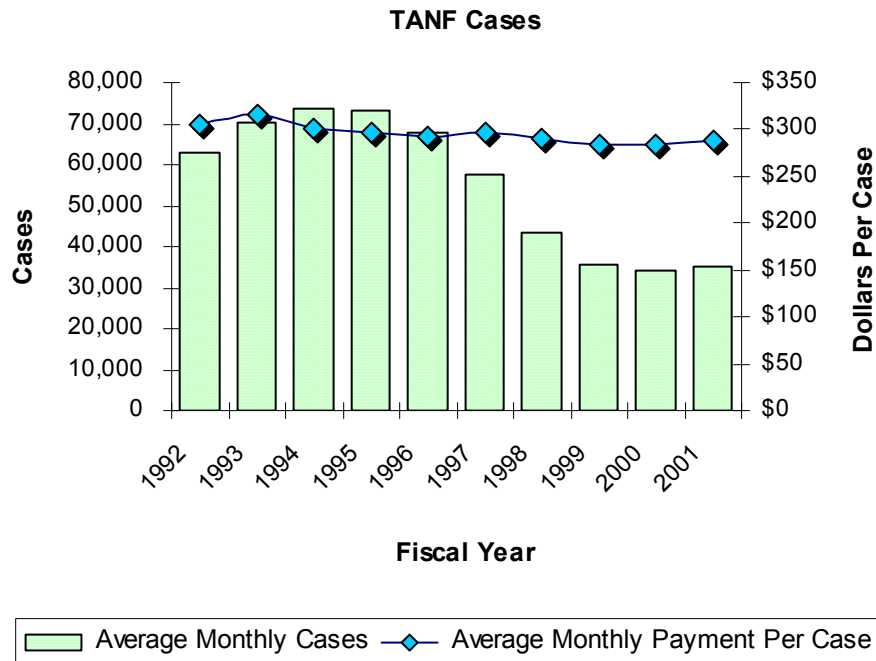


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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Temporary Assistance for Needy Families**  
**For the Fiscal Years Ended June 30**

<u>Year</u>	<u>Average Monthly Number of Cases</u>	<u>Average Monthly Number of Recipients</u>	<u>Average Monthly Payment Per Case</u>	<u>Average Monthly Payment Per Recipient</u>	<u>Average Monthly Payments</u>
1992	63,015	178,900	\$ 304.63	\$ 107.30	\$ 19,196,299
1993	70,452	197,543	315.48	112.51	22,226,198
1994	73,470	205,203	300.32	107.52	22,064,301
1995	73,277	201,019	296.57	108.11	21,731,910
1996	67,784	183,274	292.15	108.05	19,803,335
1997	57,526	155,037	296.30	109.94	17,045,065
1998	43,601	119,011	290.35	106.37	12,659,966
1999	35,730	95,556	282.66	105.69	10,099,685
2000	34,211	89,770	283.82	108.16	9,709,791
2001	35,218	91,476	288.50	111.07	10,160,486

Source: The Arizona Department of Economic Security, Family Assistance Administration.

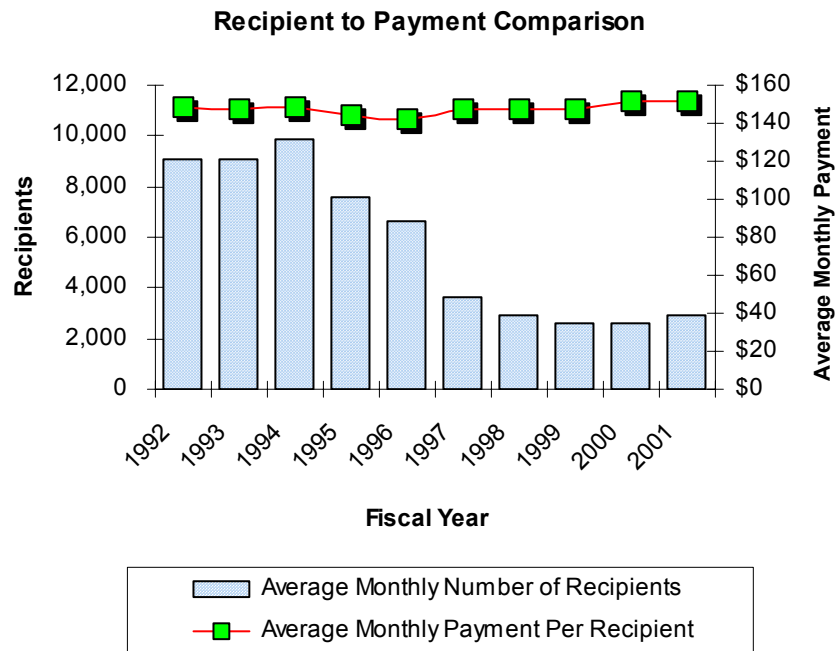


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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**General Assistance**  
**For the Fiscal Years Ended June 30**

<u>Year</u>	<u>Average Monthly Number of Recipients</u>	<u>Average Monthly Payment Per Recipient</u>	<u>Average Monthly Payments</u>
1992	9,116	\$ 148.36	\$ 1,352,449
1993	9,109	146.78	1,337,067
1994	9,855	147.63	1,455,003
1995	7,618	143.73	1,094,888
1996	6,655	141.97	944,841
1997	3,631	147.25	534,679
1998	2,883	146.87	423,430
1999	2,627	146.67	385,315
2000	2,566	151.93	389,855
2001	2,912	152.13	443,007

Source: The Arizona Department of Economic Security, Family Assistance Administration.



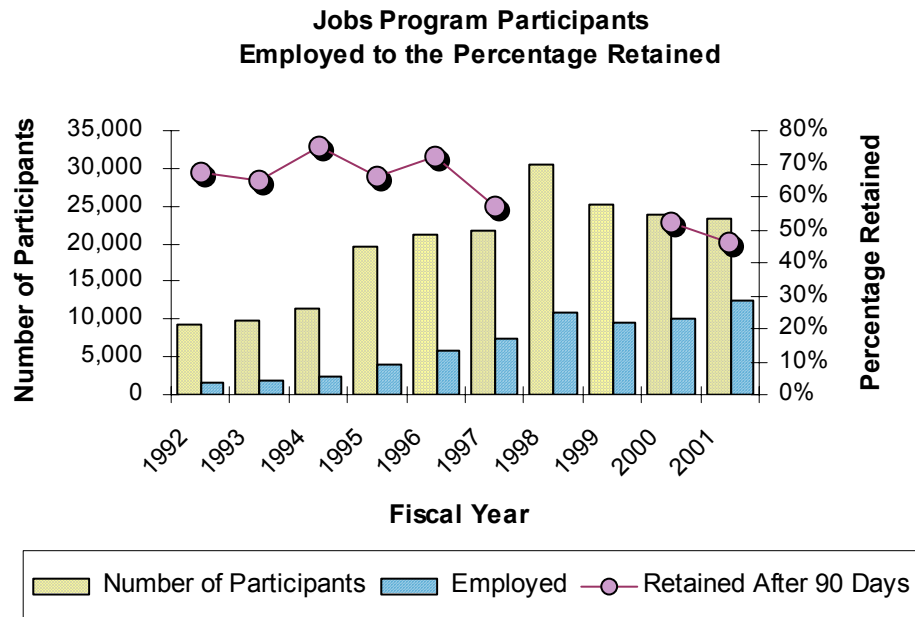
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Jobs Program**  
**Comparison of Participants and Participants Employed**  
**to the Percentage Retained**  
**For the Fiscal Years Ended June 30**

<u>Year</u>	<u>Number of Participants</u>	<u>Total Employed</u>	<u>Percentage Retained After 90 Days</u>
1992	9,390	1,489	67%
1993	9,905	1,880	65%
1994	11,446	2,445	75%
1995	19,544	3,984	66%
1996	21,263	5,905	72%
1997	21,734	7,433	57%
1998	30,520	10,930	N/A
1999	25,209	9,604	N/A
2000	23,802	9,950	52%
2001	23,290	12,405	46%

Source: The Arizona Department of Economic Security, Jobs/JTPA Administration.

Note: The Jobs Program started in fiscal year 1991. In fiscal year 1998 and the first half of 1999, percentage retained after 90 days was not tracked as a performance measure.



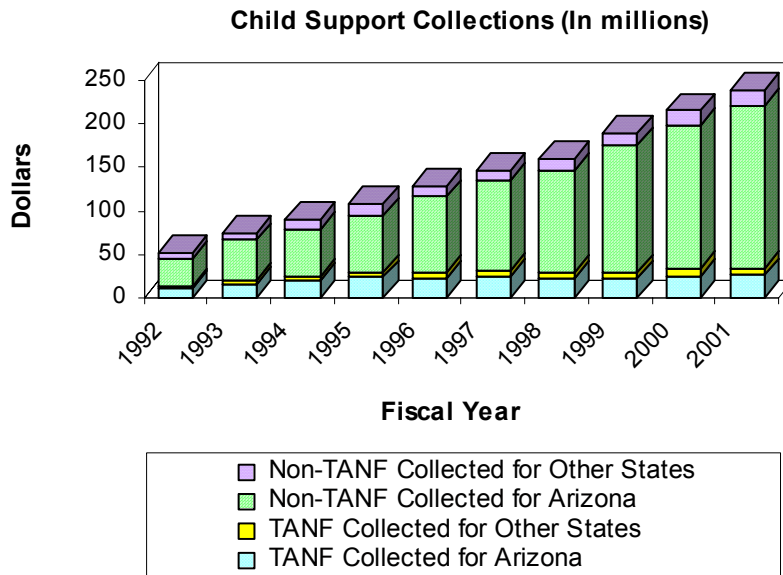
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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**  
**Child Support Enforcement Collections**  
**For the Fiscal Years Ended June 30**

Year	TANF Collected for Arizona	TANF Collected for Other States	Non-TANF Collected for Arizona	Non-TANF Collected for Other States	Total Collections
1992	\$ 10,603,300	\$ 3,867,800	\$ 31,259,700	\$ 6,701,100	\$ 52,431,900
1993	15,404,200	4,151,500	46,880,600	8,561,800	74,998,100
1994	20,679,000	4,756,100	53,339,400	11,696,800	90,471,300
1995	23,813,000	5,025,800	65,478,200	12,983,200	107,300,200
1996	23,226,800	5,893,600	86,903,200	13,220,700	129,244,300
1997	25,042,400	6,142,200	103,245,200	12,632,300	147,062,100
1998	21,895,100	7,164,900	117,104,400	13,532,600	159,697,000
1999	22,700,300	7,284,700	145,367,800	13,791,700	189,144,500
2000	25,100,000	8,212,400	165,356,200	16,248,800	214,917,400
2001	26,106,500	8,538,800	186,167,200	17,225,100	238,037,600

Source: The Arizona Department of Economic Security, Division of Child Support Enforcement.

Note: Amounts presented in the schedule above do not include non-Title IV-D client collections of approximately \$143, \$251 and \$262 million for fiscal years 1999, 2000 and 2001, respectively. TANF collected for fiscal years 2000 and 2001 includes Foster Care collections.



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